

## Historical Data Concerning District Tax Base

The information provided in Tables 1 through 5 below has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified this information and does not guarantee its accuracy.

Property within the District has a total assessed valuation for fiscal year 2017-18 of \$5,402,714,780. Table 1 represents the six-year history of assessed valuations in the District. After several years of declines in assessed values in both the County and San Bernardino County, in fiscal year 2012-13, the assessed valuation began to stabilize. Since fiscal year 2012-13, assessed valuations in the District have increased by 54.1%. It is possible that there may be future reductions of assessed valuations in the District if there is continued weakness in the local real estate market.

**Table 1**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Assessed Valuations**

**Riverside County Portion**

	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2012-13	\$3,424,305,367	\$308,625	\$79,879,623	\$3,504,493,615
2013-14	3,590,055,129	308,625	77,705,586	3,668,069,340
2014-15	4,157,921,945	308,625	75,563,860	4,233,794,430
2015-16	4,557,952,701	308,625	77,310,561	4,635,571,887
2016-17	4,884,569,932	308,625	78,467,142	4,963,345,699
2017-18	5,315,713,179	308,625	83,308,382	5,399,330,186

**San Bernardino County Portion**

	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2012-13	\$2,950,526	\$0	\$0	\$2,950,526
2013-14	3,050,796	0	0	3,050,796
2014-15	3,084,604	0	0	3,084,604
2015-16	3,137,597	0	0	3,137,597
2016-17	3,243,346	0	0	3,243,346
2017-18	3,384,594	0	0	3,384,594

**Total District**

	<i>Local Secured</i>	<i>Utility</i>	<i>Unsecured</i>	<i>Total</i>
2012-13	\$3,427,255,893	\$308,625	\$79,879,623	\$3,507,444,141
2013-14	3,593,105,925	308,625	77,705,586	3,671,120,136
2014-15	4,161,006,549	308,625	75,563,860	3,821,488,627
2015-16	4,561,090,298	308,625	77,310,561	4,638,709,484
2016-17	4,887,813,278	308,625	78,467,142	4,966,589,045
2017-18	5,319,097,773	308,625	83,308,382	5,402,714,780

Source: California Municipal Statistics, Inc.

## Tax Levies and Delinquencies

Table 2 summarizes the annual secured tax levy within the portions of the District located within the County for its outstanding general obligation bonds and the amount delinquent as of June 30 for the last five

fiscal years. Under the terms of the County's Teeter Plan, the District is paid 100% of the secured tax levy each year by the County and the County takes responsibility for collecting delinquencies and keeps penalties and interest. The portion of the secured tax levy for the general obligation bonds levied on property within the County of San Bernardino (less than 1% of the total) is not covered by the Teeter Plan and the District receives only the actual collections plus its share of any penalties and interest payable with respect to delinquent taxes.

**Table 2<sup>(1)</sup>**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Secured Tax Charges and Delinquencies**  
**Riverside County Portion**

	<i>Secured Tax Charges Levied<sup>(1)</sup></i>	<i>Delinquent Secured Taxes</i>	<i>% Delinquent June 30</i>
2012-13	\$2,841,811.48	\$76,562.20	2.69%
2013-14	3,161,542.71	48,996.13	1.55
2014-15	3,341,806.12	49,926.38	1.49
2015-16	3,187,272.95	42,839.73	1.34
2016-17	3,471,658.63	43,279.63	1.25

<sup>(1)</sup> This table represents the taxes levied in the District for its outstanding general obligation bonds and does not include any delinquencies related to other tax or assessment levies.

Source: California Municipal Statistics, Inc.

### Tax Rates

There are a total of 107 tax rate areas in the District. Table 3 summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical Tax Rate Area within the District for fiscal years 2013-14 through 2017-18 expressed as a percentage of the assessed value of the property upon which such taxes were levied.

**Table 3**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Summary of *Ad Valorem* Tax Rates**  
**Typical Total Tax Rates (Riverside County Portion (TRA 2-051))**

	<i>2013-14</i>	<i>2014-15</i>	<i>2015-16</i>	<i>2016-17</i>	<i>2017-18</i>
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Beaumont Unified School District	0.09000	0.08169	0.07106	0.07193	0.07677
Mount San Jacinto Community College District	0.00000	0.00000	0.01394	0.01320	0.01320
San Gorgonio Memorial Healthcare District	0.11896	0.11296	0.08143	0.08357	0.09052
San Gorgonio Pass Water Agency	<u>0.18500</u>	<u>0.18500</u>	<u>0.18500</u>	<u>0.18500</u>	<u>0.18250</u>
Total	<u>1.39396%</u>	<u>1.37965%</u>	<u>1.35143%</u>	<u>1.35370%</u>	<u>1.36299%</u>

Source: California Municipal Statistics, Inc.

## Largest Taxpayers

Table 4 below lists the 20 largest secured property taxpayers within the District measured by assessed valuation for fiscal year 2017-18. Table 4 excludes the parcels within the County of San Bernardino from the analysis; however, such parcels represent less than 1% of the District's assessed valuation.

**Table 4**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Twenty Largest 2017-18 Local Secured Property Taxpayers**  
**Riverside County Portion**

	<i>Property Owner</i>	<i>Primary Land Use</i>	<i>2016-17 Assessed Valuation</i>	<i>Percentage of Total<sup>(1)</sup></i>
1.	Pardee Homes	Residential Development	\$ 55,340,759	1.04%
2.	Frederick J. Hanshaw	Commercial	41,177,058	0.77
3.	High Desert Partners	Commercial	37,788,881	0.71
4.	San Gorgonio Land	Undeveloped	36,882,529	0.69
5.	Ambest Real Estate	Commercial	31,066,650	0.58
6.	USEF Crossroads I & II	Commercial Land	30,247,032	0.57
7.	Loma Linda University	Medical Center	26,282,164 <sup>(2)</sup>	0.49
8.	Wal Mart Real Estate Business Trust	Commercial	21,789,436	0.41
9.	Valley View Center	Commercial	20,944,099	0.39
10.	SDC Fairway Canyon	Undeveloped	20,373,304	0.38
11.	Dura Plastic Products Inc.	Industrial	19,810,778	0.37
12.	Lowe's HIW Inc.	Commercial	17,704,942	0.33
13.	Trinity Partners	Commercial Land	15,768,414	0.30
14.	Kohl's Dept. Stores Inc.	Commercial	14,361,464	0.27
15.	Sunny Cal 1 Inv	Undeveloped	13,873,711	0.26
16.	Home Depot USA Inc.	Commercial	13,350,340	0.25
17.	K. Hovnanian Four Seasons at Beaumont	Residential Development	11,352,409	0.21
18.	Aim All Storage I 10	Industrial	10,868,464	0.20
19.	Home Depot Center	Commercial	10,803,987	0.20
20.	M & R Beaumont Partners	Commercial	10,194,551	0.19
			<u>\$ 459,980,972</u>	<u>8.65%</u>

<sup>(1)</sup> 2017-18 Local Secured Assessed Valuation (Riverside County Portion Only): \$5,319,097,773.

<sup>(2)</sup> Net taxable value.

Source: California Municipal Statistics, Inc.

Table 5 below describes the District's total secured assessed valuation measured by land use type in fiscal year 2017-18. Table 5 excludes the parcels within the County of San Bernardino from the analysis; however, such parcels represent less than 1% of the District's assessed valuation.

**Table 5**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**2017-18 Assessed Valuation and Parcels by Land Use<sup>(1)</sup>**  
**Riverside County Portion**

	<i>2017-18 Assessed Valuation<sup>(2)</sup></i>	<i>% of Total</i>	<i>No. of Parcels</i>	<i>% of Total</i>
<b>Non-Residential:</b>				
Agricultural/Rural	\$ 38,580,418	0.73%	74	0.30%
Commercial	329,145,430	6.19	560	2.29
Vacant Commercial	65,739,422	1.24	475	1.95
Professional/Office	37,153,775	0.70	53	0.22
Industrial	105,941,839	1.99	139	0.57
Recreational	46,197,033	0.87	109	0.45
Government/Social/Institutional	3,956,142	0.07	91	0.37
Vacant Other	<u>14,811,681</u>	<u>0.28</u>	<u>640</u>	<u>2.62</u>
Subtotal Non-Residential	\$ 641,525,740	12.06%	2,141	8.77%
<b>Residential:</b>				
Single Family Residence	\$ 3,843,773,739	72.26%	15,364	62.93%
Condominium/Townhouse	113,707,454	2.14	536	2.20
Mobile Homes and Mobile Home Lots	68,683,861	1.29	1,567	6.42
Mobile Home Park	33,168,032	0.62	20	0.08
2+ Residential Units/Apartments	66,427,085	1.25	311	1.27
Miscellaneous Residential Improvements	1,905,669	0.04	25	0.10
Vacant Residential	<u>549,906,193</u>	<u>10.34</u>	<u>4,449</u>	<u>18.22</u>
Subtotal Residential	\$ 4,677,572,033	87.94%	22,272	91.23%
<b>Total</b>	<b><u>\$ 5,319,097,773</u></b>	<b><u>100.00%</u></b>	<b><u>24,413</u></b>	<b><u>100.00%</u></b>

(1) Some totals may not add up due to rounding.

(2) Local secured assessed valuation, excluding tax-exempt property (Riverside County Portion only).

Source: California Municipal Statistics, Inc.

## THE DISTRICT

### Introduction

The District is located in the northwestern portion of Riverside County at the intersection of the U.S. Interstate 10 and State Route 60 Freeways, with a small portion of the District boundaries extending into San Bernardino County. The District encompasses an area of approximately 110 square miles, and it serves the communities of Beaumont and Cherry Valley and portions of Calimesa and Banning, as well as the surrounding areas. The District was established in 1953 and currently operates twelve school sites which include six elementary schools, two middle schools, a comprehensive high school, an adult education school, a distance learning institute and a continuation high school. A charter school began operations within the District in fiscal year 2013-14 and currently has an enrollment of 337 students. The total enrollment during fiscal year 2017-18 was approximately 10,000 students.

## Board of Trustees

The District is governed by a five member Board of Trustees (the “Board”). Members are elected to serve alternating four-year terms.

**Table 6**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Board of Trustees**

<i>Name</i>	<i>Term Expires</i>
David Sanchez, President	November 2020
Steven Hovey, Vice President	November 2018
Susie Lara, Clerk	November 2018
Brian Sylva, Member	November 2020
Janelle Poulter, Member	November 2018

Source: Beaumont Unified School District.

## Superintendent and Administrative Personnel

The District Superintendent (the “Superintendent”) is the chief executive officer of the District and is appointed by the Board to manage the day-to-day operations of the District. Terrence Davis serves as the Superintendent. Brief biographical information for the Superintendent and other senior management of the District is set forth below.

***Terrence A. Davis, Superintendent.*** Mr. Davis was appointed Superintendent of the District in July 2016. Superintendent Davis joined the District in 2012 as the Assistant Superintendent of Human Resources. Prior to that, he served as Director of Human Resources and Director of Special Education for the Temecula Valley School District. Superintendent Davis was also a program specialist and special education teacher in the Alvord Unified School District. He has a Bachelor’s degree in Criminal Justice from California State University, Long Beach, and a Master’s degree in Special Education from National University.

***Penni Harbauer, Assistant Superintendent of Business Services.*** Ms. Harbauer was appointed to Assistant Superintendent of Business Services in July 2017. Prior to that, she served as the Business Manager and Director of Fiscal Services for Moreno Valley Unified School District. Ms Harbauer was also a Supervisor of Accounting, Supervisor of Payroll, Special Education Compliance Manager, Special Education Administrative Secretary, District Information Processing Technician and Library Instructional Aide for the San Jacinto Unified School District. She has a Bachelor's degree in Business Administration and a Master's Degree in Business Management with an emphasis in Human Resource Management, both from the University of Phoenix.

## Employee Relations

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

The teachers of the District (certificated personnel) are represented by the Beaumont Teachers Association (the “BTA”). The BTA contract with the District expires on June 30, 2019.

As of June 30, 2018, the District employed 484 BTA certificated employees with a total covered payroll of approximately \$37,294,986, and an additional 40 non-BTA certificated employees. Table 7 below lists the number of certificated employees for the previous five fiscal years.

**Table 7**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Certificated Employees**

<i>Fiscal Year</i>	<i>Number of BTA Employees<sup>(1)</sup></i>	<i>Number of Non-BTA Employees</i>
2013-14	377	28
2014-15	388	32
2015-16	416	35
2016-17	431	37
2017-18	474	40

<sup>(1)</sup> On a full-time equivalent basis through the General Fund.  
Source: The District.

The California School Employees Association (“CSEA”) has been selected as the exclusive bargaining agent for non-teaching (classified) personnel. The contract with CSEA expired on June 30, 2015. The parties will continue to operate under the terms of the old contract until a new contract is agreed upon.

As of June 30, 2018, the District employed 440 CSEA classified employees with a total covered payroll of approximately \$11,270,956, and an additional 31 non-CSEA employees. Table 8 below lists the number of classified employees for the previous five fiscal years.

**Table 8**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Classified Employees**

<i>Fiscal Year</i>	<i>Number of CSEA Employees<sup>(1)</sup></i>	<i>Number of Non-CSEA Employees</i>
2013-14	251	30
2014-15	265	28
2015-16	267	29
2016-17	276	29
2017-18	329	31

<sup>(1)</sup> On a full-time equivalent basis through the General Fund.  
Source: The District.

### **Retirement System**

*This section contains certain information relating to the Public Employees’ Retirement System (“PERS”) and the State Teachers’ Retirement System (“STRS”). The information is primarily derived from information produced by PERS and STRS, their independent accountants and their actuaries. The District has not independently verified the information provided by PERS and STRS and makes no representations nor expresses any opinion as to the accuracy of the information provided by PERS and STRS.*

*The comprehensive annual financial reports of PERS and STRS are available on their websites at [www.calpers.ca.gov](http://www.calpers.ca.gov) and [www.calstrs.ca.gov](http://www.calstrs.ca.gov), respectively. The PERS and STRS websites also contain the most recent actuarial valuation reports, as well as other information concerning benefits and other matters. Such information is not incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” information that reflect the judgment of the*

*fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.*

**STRS.** All full-time certificated employees, as well as certain classified employees, are members of STRS. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program (the “STRS Defined Benefit Program”). The STRS Defined Benefit Program is a multiple-employer defined benefit plan which is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers, and the State. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended from time to time.

Prior to fiscal year 2014-15, unlike typical defined benefit programs, none of the employee, employer or State contribution rate to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, in 2014 the State passed legislation described below to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25% of eligible salary expenditures, while participants contributed 8% of their respective salaries. On June 24, 2014, the Governor signed A.B. 1469 (“A.B. 1469”) in to law as a part of the 2014-15 State Budget. A.B. 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing on July 1, 2014, the employee contribution rates increased over a three year phase in period in accordance with the schedule set forth in Table 9 below:

**Table 9**  
**MEMBER CONTRIBUTION RATES**  
**STRS (Defined Benefit Program)**

<i>Effective Date</i>	<i>STRS Members Hired Prior to January 1, 2013</i>	<i>STRS Members Hired After January 1, 2013</i>
July 1, 2014	8.15%	8.150%
July 1, 2015	9.20	8.560
July 1, 2016	10.25	9.205

Source: A.B. 1469.

Pursuant to the Reform Act (defined below), the contribution rates for members hired after the Implementation Date (defined below) will be adjusted if the normal cost increases by more than 1% since the last time the member contribution was set. While the contribution rate for employees hired after the Implementation Date remained unchanged at 9.205% of creditable compensation for fiscal year commencing July 1, 2017, member contribution rates for such members increased to 10.205% of creditable compensation effective July 1, 2018.

Pursuant to A.B. 1469, K-14 school districts' contribution rate increased over a seven year phase in period in accordance with the schedule set forth in Table 10 below:

**Table 10**  
**K-14 SCHOOL DISTRICT CONTRIBUTION RATES**  
**STRS (Defined Benefit Program)**

<i>Effective Date</i>	<i>K-14 school districts<sup>(1)</sup></i>
July 1, 2014	8.88%
July 1, 2015	10.73
July 1, 2016	12.58
July 1, 2017	14.43
July 1, 2018	16.28
July 1, 2019	18.13
July 1, 2020	19.10

<sup>(1)</sup> Percentage of eligible salary expenditures to be contributed.  
Source: A.B. 1469.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Teachers' Retirement Board (the "STRS Board"), is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. In addition to the increased contribution rates discussed above, A.B. 1469 also requires the STRS Board to report to the State legislature every five years (commencing with a report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

The District's contribution to STRS was \$3,886,835 in fiscal year 2015-16 and \$5,053,421 in fiscal year 2016-17. In its fiscal year 2018-19 budget (the "2018-19 Adopted Budget"), the District estimates that it made a STRS contribution of \$6,348,294 in fiscal year 2017-18 and has budgeted for a STRS contribution of \$7,842,994 in fiscal year 2018-19. For additional information regarding the District's participation in STRS, see Note 13 to the District's Audited Financial Statements for fiscal year 2016-17 attached as Appendix B hereto.

The State also contributes to STRS, currently in an amount equal to 7.328% of teacher payroll for fiscal year 2018-19. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. For the first time, in fiscal year 2017-18, the State contribution will increase 0.5% of covered payroll (the maximum rate increase allowed per year under current law) to 6.828%.

In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.



**PERS.** Classified employees working four or more hours per day are members of PERS. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. PERS operates a number of retirement plans including the Public Employees Retirement Fund (“PERF”). PERF is a multiple-employer defined benefit retirement plan. PERF is a multiple-employer defined benefit retirement plan. In addition to the State, employer participants at June 30, 2014 included 1,580 public agencies and 1,513 K-14 school districts. PERS acts as the common investment and administrative agent for the member agencies. The State and school districts (for “classified employees,” which generally consist of school employees other than teachers) are required by law to participate in PERF. Employees participating in PERF generally become fully vested in their retirement benefits earned to date after five years of credited service. One of the plans operated by PERS is for school districts throughout the State (the “Schools Pool”).

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which is 18.062% of eligible salary expenditures for fiscal year 2018-19. Participants enrolled in PERS prior to January 1, 2013 contribute at a rate established by statute, which is 7% of their respective salaries in fiscal year 2018-19, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which is 7% of their respective salaries for fiscal year 2018-19. See “— California Public Employees’ Pension Reform Act of 2013” herein.

The District’s contribution to PERS was \$1,364,905 in fiscal year 2015-16 and \$1,696,988 in fiscal year 2016-17. In the 2018-19 Adopted Budget, the District estimates that it contributed \$1,976,957 to PERS in fiscal year 2017-18 and has budgeted for a PERS contribution of \$2,723,458 in fiscal year 2018-19. For additional information regarding the District’s participation in PERS, see Note 13 to the District’s Audited Financial Statements for fiscal year 2016-17 attached as Appendix B hereto.

**State Pension Trusts.** Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. Table 11 below summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS (Schools Pool). Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

**Table 11**  
**FUNDED STATUS**  
**STRS (Defined Benefit Program) and PERS (School Pool)**  
**(Dollar Amounts in Millions)<sup>(1)</sup>**  
**Fiscal Years 2011-12 through 2015-16**

<b>STRS</b>					
<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Value of Trust Assets (MVA)<sup>(2)</sup></i>	<i>Unfunded Liability (MVA)<sup>(3)</sup></i>	<i>Value of Trust Assets (AVA)<sup>(4)</sup></i>	<i>Unfunded Liability (AVA)<sup>(4)(5)</sup></i>
2011-12	\$215,189	\$143,118	\$80,354	\$144,232	\$70,957
2012-13	222,281	157,176	74,374	148,614	73,667
2013-14	231,213	179,749	61,807	158,495	72,718
2014-15	241,753	180,633	72,626	165,553	76,200
2015-16	266,704	177,914	101,586	169,976	96,728
2016-17	286,950	197,718	103,468	179,689	107,261
<b>PERS (Schools Pool)</b>					
<i>Fiscal Year</i>	<i>Accrued Liability</i>	<i>Value of Trust Assets (MVA)<sup>(2)</sup></i>	<i>Unfunded Liability (MVA)<sup>(3)</sup></i>	<i>Value of Trust Assets (AVA)<sup>(4)</sup></i>	<i>Unfunded Liability (AVA)<sup>(4)</sup></i>
2011-12	\$59,439	\$44,854	\$14,585	\$53,791	\$5,648
2012-13	61,487	49,482	12,005	56,250	5,237
2013-14	65,600	56,838	8,761	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2014-15	73,325	56,814	16,511	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2015-16 <sup>(7)</sup>	77,544	55,785	21,759	-- <sup>(6)</sup>	-- <sup>(6)</sup>
2016-17 <sup>(8)</sup>	84,416	60,865	23,551	-- <sup>(6)</sup>	-- <sup>(6)</sup>

(1) Amounts may not add due to rounding.

(2) Reflects market value of assets.

(3) Unfunded Liability (MVA) is equal to the Accrued Liability column minus the Value of Trust Assets (MVA) column minus the amount deposited in the Supplemental Benefits Maintenance Account reserve, which is not available to provide benefits under the STRS Defined Benefit Program.

(4) Based on actuarial value of assets.

(5) Unfunded Liability (AVA) is equal to the Accrued Liability column minus the Value of Trust Assets (AVA) column.

(6) Figures not provided. Effective with the June 30, 2015 valuation, PERS no longer uses an actuarial value of assets.

(7) The PERS Finance & Administration Committee has approved the K-14 school district contribution rate for fiscal year 2017-18 and released certain actuarial information to be incorporated into the June 30, 2016 actuarial valuation to be released in summer 2017.

(8) On April 18, 2018, the PERS Board (defined below) approved the K-14 school district contribution rate for fiscal year 2018-19 and released certain actuarial information to be incorporated into the June 30, 2017 actuarial valuation to be released in summer 2018.

Source: PERS Schools Pool Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. Based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2010, through June 30, 2015), on February 1, 2017, the STRS Board adopted a new set of actuarial assumptions that reflect members' increasing life expectancies and current economic trends. These new assumptions were first reflected in the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016 (the "2016 Actuarial Valuation"). The new actuarial assumptions include, but are not limited to: (i) adopting a generational mortality methodology to reflect past improvements in life expectancies and provide a more dynamic assessment of future life spans, (ii) decreasing the investment rate of return (net of investment and administrative expenses) to 7.25% for the 2016 Actuarial Valuation and 7.00% for the June 30, 2017 actuarial evaluation (the "2017 STRS Actuarial Valuation"), and (iii) decreasing the projected wage growth to 3.50% and the projected inflation rate to 2.75%. The 2017 Actuarial Valuation continues using the Entry Age Normal Actuarial Cost Method.

Based on the change in actuarial assumptions adopted by the STRS Board, including the adoption of a 7% investment rate of return, recent investment experience and the insufficiency of the contributions received in fiscal year 2016-17 to cover interest on the unfunded actuarial obligation, the 2017 Actuarial Valuation reports that the unfunded actuarial obligation increased by \$10.6 billion since the June 30, 2016 actuarial valuation and the funded ratio decreased by 1.1% to 62.6% over such time period. As a result, it is currently projected that there will be a need for higher contributions from the State, employers and members in the future to reach full funding by 2046.

According to the 2017 Actuarial Valuation, the future revenues from contributions and appropriations for the STRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations with an ending fund ratio in fiscal year ending June 30, 2046 of 99.6%, except for a small portion of the unfunded actuarial obligation related to service accrued on or after July 1, 2014 for member benefits adopted after 1990, for which AB 1469 provides no authority to the STRS Board to adjust rates to pay down that portion of the unfunded actuarial obligation. This finding reflects the scheduled contribution rate increases directed by statute, assumes additional increases in the scheduled contribution rates allowed under the current law will be made, and is based on the valuation assumptions and valuation policy adopted by the STRS Board, including a 7.00% investment rate of return assumption.

In recent years, the PERS Board of Administration (the "PERS Board") has taken several steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of its plans, including the Schools Pool.

On March 14, 2012, the PERS Board voted to lower the PERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "PERS Discount Rate") from 7.75% to 7.5%. On February 18, 2014, the PERS Board voted to keep the PERS Discount Rate unchanged at 7.5%. On November 17, 2015, the PERS Board approved a new funding risk mitigation policy to incrementally lower the PERS Discount Rate by establishing a mechanism whereby such rate is reduced by a minimum of 0.05% to a maximum of 0.25% in years when investment returns outperform the existing PERS Discount Rate by at least four percentage points. On December 21, 2016, the PERS Board voted to lower the PERS Discount Rate to 7.0% over the next three years in accordance with the following schedule: 7.375% in fiscal year 2017-18, 7.25% in fiscal year 2018-19 and 7.00% in fiscal year 2019-20. The new discount rate will go into effect July 1, 2017 for the State and July 1, 2018 for K-14 school districts and other public agencies. Lowering the PERS Discount Rate likely means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Reform Act (defined below) will likely also see their contribution rates rise. The three-year reduction of the discount rate to 7.0% is expected to result in average employer rate increases of approximately 1-3% of normal cost as a percent of payroll for most miscellaneous retirement plans and a 2-5% increase for most safety plans.

On April 17, 2013, the PERS Board approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year fixed amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The new actuarial policies were first included in the June 30, 2014 actuarial valuation and were implemented with respect the State, K-14 school districts and all other public agencies in fiscal year 2015-16.

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions will first be reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year

2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

The PERS Board is required to undertake an experience study every four years under its Actuarial Assumptions Policy and State law. As a result of the most recent experience study, on December 20, 2017, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation rate to 2.625% for the June 30, 2018 actuarial valuation and to 2.50% for the June 30, 2019 actuarial valuation, (ii) lowering the payroll growth rate to 2.875% for the June 30, 2018 actuarial valuation and 2.75% for the June 30, 2018 actuarial valuation, (iii) and certain changes to demographic assumptions relating to the salary scale for most constituent groups, and modifications to the morality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved a new actuarial amortization policy with an effective date for actuarial valuations beginning on or after June 30, 2019, which includes (i) shortening the period over which actuarial gains and losses are amortized from 30 years to 20 years, (ii) requiring that amortization payments for all unfunded accrued liability bases established after the effective date be computed to remain a level dollar amount throughout the amortization period, (iii) removing the 5-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumptions changes and non-investment gains/losses established on or after the effective date and (iv) removing the 5-year ramp-down on investment gains/losses established after the effective date. While PERS expects that reducing the amortization period for certain sources of unfunded liability will increase future average funding ratios, provide faster recovery of funded status following market downturns, decrease expected cumulative contributions, and mitigate concerns over intergenerational equity, such changes may result in increases in future employer contribution rates.

On April 18, 2018, the PERS Board established the employer contribution rates for 2018-19 and released certain information from the Schools Pool Actuarial Valuation as of June 30, 2017, ahead of its summer of 2018 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with the expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution rate for 2019-20 is projected to be 20.8%, with annual increases thereafter, resulting in a projected 25.7% employer contribution rate for fiscal year 2025-26.

The District can make no representations regarding the future program liabilities of STRS, or whether the District will be required to make additional contributions to STRS in the future above those amounts required under A.B. 1469. The District can also provide no assurances that the District's required contributions to PERS will not increase in the future.

**California Public Employees' Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employee's Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be

adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

***GASB Statement Nos. 67 and 68.*** On June 25, 2012, the Governmental Accounting Standards Board (“GASB”) approved two new standards (“Statements”) with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, will replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes will impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: 1) the inclusion of unfunded pension liabilities on the government’s balance sheet (currently, such unfunded liabilities are typically included as notes to the government’s financial statements); 2) more components of full pension costs being shown as expenses regardless of actual contribution levels; 3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; 4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and 5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time.

The reporting requirements under GASB No. 68 for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014. The District’s net pension liability for Government Activities at June 30, 2017 calculated pursuant to GASB No. 68 was estimated to be \$77,012,177, an increase of \$13,425,164 from the prior fiscal year. See the section of the District’s Audited Financial Statements for fiscal year 2016-17 attached as Appendix B hereto entitled “SCHEDULE OF THE DISTRICT’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.”

### **Post-Employment Benefits**

The District provides post-employment health care benefits, in accordance with the District’s employment contracts, to all employees who retire from the District on or after attaining the a certain age with certain years of service. All non-CSEA employees hired on or prior to March 11, 2008 and all CSEA employees hired on or prior to April 8, 2008 who retire from the District will receive these benefits upon attaining the age of 60 with 15 years of service, though certain employees hired at least 5 and in some cases 10 years prior to such dates will be eligible to receive benefits upon attaining the age of 55 based upon their position and length of continuous service with the District. All non-CSEA employees hired after March 11, 2008 and all CSEA employees hired after April 8, 2008 who retire from the District will receive these benefits upon attaining the age of 60 with 20 years of service. As of June 30, 2017, 24 retired employees and beneficiaries met those eligibility requirements and the District employed 748 active participants. For non-management retirees, the District contributes a maximum of \$10,000 per year of the amount of medical premiums incurred by each such retiree and his or her dependents and the retiree contributes the remainder; for management retirees and their dependents, the District contributes the entire amount of medical premiums for one or two persons per retiree. A retiree will receive these health care benefits to the end of the month in which the retiree turns 65. Expenditures for post-employment benefits are recognized by the District on a pay-as-you-go basis, as retirees report claims paid.

Beginning with its fiscal year ending June 30, 2009, the District was required to comply with GASB Statement 45 relating to other post-employment benefits (“OPEB”), which requires the District to recognize the expenses and related liabilities and assets for any OPEB provided by the District in its government-wide financial statements of net assets and activities. The District is required to conduct a report on its unfunded actuarial liability every two years with respect to its OPEBs. As of July 1, 2016, the most recent actuarial valuation date for the OPEB, the District’s actuarial liability for its OPEB was approximately \$18.4 million. This amount represented the present value of all benefits projected to be paid by the District for current and future retirees. As of that date, the District did not have a funded plan and had an unfunded actuarial accrued liability of approximately \$18.4 million based on certain assumptions, which amount constitutes the portion of the actuarial liability arising from the past service of the District’s current and future retirees. The District’s annual required contribution (the “ARC”) for the post-employment health benefits plan calculated in accordance with the parameters of GASB Statement 45 is \$1,118,474 for the fiscal year beginning July 1, 2017 and is projected to be \$1,297,621 for the fiscal year beginning July 1, 2018. During fiscal year 2016-17, the District contributed \$449,705, or 34.7%, of its ARC. In fiscal year 2017-18, the District estimates that it contributed \$447,272, or 34.4%, of its ARC, and it has budgeted for a contribution of \$156,000, or 12.0%, of its ARC in fiscal year 2018-19. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. At June 30, 2017, the District’s net OPEB obligation was \$6,122,176 and is estimated to be \$8,893,312 at June 30, 2018. See Note 12 to the District’s Audited Financial Statements for fiscal year 2016-17 attached as Appendix B hereto.

## **Insurance**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District currently receives property and liability insurance coverage through the Riverside Schools Insurance Authority, a public entity risk pool which insures a number of school districts in Riverside County and Southern California Regional Excess Liability Fund Joint Powers Authorities. Settled claims have not exceeded this commercial coverage in any of the past three years.

To obtain workers’ compensation insurance, the District participates in the Riverside Schools Risk Management Authority (“RSRMA”) public entity risk pool. The intent of RSRMA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in RSRMA. The workers’ compensation experience of the participating districts is calculated and applied to a common premium rate. Participation in RSRMA is limited to local educational agencies that can meet RSRMA selection criteria.

## **DISTRICT FINANCIAL MATTERS**

### **Accounting Practices**

The accounting policies of the District conform to generally accepted accounting principles and are in accordance with the 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 State school districts.

### **District Budget**

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

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent of Schools (the "County Superintendent") within five days of adoption or by July 1, whichever occurs first. The budget is only readopted if it is disapproved by the County Superintendent, or as needed.

Upon receipt of an adopted budget, the County Superintendent will (a) 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, (b) determine if the adopted budget allows the district to meet its current obligations, (c) determine if the adopted budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, (d) determine whether the adopted budget includes the expenditures necessary to implement the local control and accountability plan or annual update thereto, and (e) determine whether the adopted budget includes a combined assigned and unassigned ending fund balance that exceeds the minimum recommended reserve for economic uncertainties. On or before September 15, the County Superintendent will approve, conditionally approve or disapprove the adopted budget for each school district.

If the County Superintendent determines that the adopted budget does not satisfy one or more of the requirements set forth in the preceding paragraph, the County Superintendent shall transmit recommendations regarding revisions to the adopted budget to the school district and the reasons therefor. The County Superintendent may assign a fiscal adviser to assist the school district to develop a budget in compliance with those revisions. In addition, the County Superintendent may appoint a committee to examine and comment on the review and recommendations, subject to the requirement that the committee report its findings to the County Superintendent no later than September 20.

If the adopted budget of a school district is conditionally approved or disapproved by the County Superintendent, on or before October 8, the governing board of the school district, in conjunction with the County Superintendent, shall review and respond to the recommendations of the County Superintendent at a regular meeting of the governing board of the school district. The response shall include any revisions to the adopted budget and other proposed actions to be taken, if any, as a result of those recommendations.

No later than October 22, the County Superintendent must notify the State Superintendent of Public Instruction (the "State Superintendent") of all school districts whose budget has been disapproved.

Upon receipt of a revised budget, the County Superintendent must determine whether the revised budget conforms to the standards and criteria applicable to final district budgets. If the revised budget is disapproved, the County Superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1, unless the governing board of the school district and the County Superintendent agree to waive the requirement that a budget review committee be formed and the department approves the waiver after determining that a budget review committee is not necessary.

If a budget review committee is appointed and recommends approval of the adopted budget, the County Superintendent shall accept the recommendation of the committee and approve the adopted budget.

If the budget review committee disapproves the adopted budget, the governing board of the school district, not later than five working days after the receipt of the report from the budget review committee, may submit a response to the Superintendent, including any revisions to the adopted budget and any other proposed actions to be taken as a result of the budget review committee's recommendations. Based upon these recommendations and any response thereto provided by the governing board of the school district, the Superintendent shall either approve or disapprove the revised budget. If the Superintendent disapproves the budget, he or she shall notify the governing board of the school district in writing of the reasons for that disapproval and, until the County Superintendent certifies the school district's First Interim Financial Report (as described below), the County Superintendent shall undertake the actions set forth in Section 42127.3.

Upon the grant of a waiver from the requirement to form a budget review committee, the County Superintendent immediately has the authority and responsibility provided in Section 42127.3. Upon approving a waiver of the budget review committee, the department shall ensure that a balanced budget is adopted for the school district by December 31. If no budget is adopted by December 31, the Superintendent may adopt a budget for the school district. The Superintendent shall report to the State Legislature and the Director of Finance by January 10 if any school district, including a school district that has received a waiver of the budget review committee process, does not have an adopted budget by December 31. This report shall include the reasons why a budget has not been adopted by the deadline, the steps being taken to finalize budget adoption, the date the adopted budget is anticipated, and whether the Superintendent has or will exercise his or her authority to adopt a budget for the school district.

Not later than November 8, the County Superintendent shall submit a report to the State Superintendent identifying all school district for which budgets have been disapproved or budget review committees waived.

Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

After approving the districts' budgets, the County Superintendent will monitor, throughout the fiscal year, each school district under his or her jurisdiction pursuant to its adopted budget to determine on a continuing basis if the district can meet its current or subsequent year financial obligations. If a County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent may do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent must so notify the State Superintendent, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, also after consulting with the district's board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of any collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

At a minimum, school districts file with their County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through October 31 and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year to date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education. The District has not received a qualified or negative certification on its interim reports within the past five years.

Pursuant to State law, the District adopted the 2018-19 Adopted Budget on June 26, 2018, which budget set forth revenues and expenditures such that appropriations during fiscal year 2018-19 were not



projected to exceed the sum of revenues plus the July 1, 2018 beginning fund balance. See “DISTRICT FINANCIAL MATTERS—Current Financial Condition” below.

**State Funding of Education**

School district revenues consist primarily of appropriated State moneys, local property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. All State aid is subject to the appropriation of funds in the State’s annual budget.

**Revenue Limit Funding.** Previously, school districts operated under general purpose revenue limits established by the State Department of Education. In general, revenue limits were calculated for each school district by multiplying the ADA for such district by a base revenue limit per unit of ADA. Revenue limit calculations were subject to adjustment in accordance with a number of factors designed to provide cost of living adjustments (“COLAs”) and to equalize revenues among school districts of the same type. Funding of a school district’s revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Beginning in fiscal year 2013-14, school districts began being funded based on uniform funding grants assigned to certain grade spans. See “—State Funding of Education—Local Control Funding Formula.”

Table 12 below reflects the District’s historical ADA for fiscal years 2013-14 through 2017-18.

**TABLE 12  
AVERAGE DAILY ATTENDANCE  
Fiscal Years 2013-14 through 2017-18  
Beaumont Unified School District**

<i>Year</i>	<i>Average Daily Attendance<sup>(1)</sup></i>	<i>Annual Change in ADA</i>
2013-14	8,435	N/A
2014-15	8,687	3.0%
2015-16	8,937	3.0
2016-17	9,271	3.6
2017-18	9,522	2.6

<sup>(1)</sup> Reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year. Excludes ADA of District funded charter schools.  
Source: Beaumont Unified School District.

**Local Control Funding Formula.** State Assembly Bill 97 (Stats. 2013, Chapter 47) (“AB 97”), enacted as part of the 2013-14 State budget, establishes a new system for funding school districts, charter schools and county offices of education. Certain provisions of AB 97 were amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49).

The primary component of AB 97 is the implementation of the Local Control Funding Formula (“LCFF”), which replaces the revenue limit funding system for determining State apportionments, as well as the majority of categorical program funding. State allocations are provided on the basis of target base funding grants per unit of ADA (a “Base Grant”) assigned to each of four grade spans. Each Base Grant is subject to certain adjustments and add-ons, as discussed below. Full implementation of the LCFF is expected to occur over a period of several fiscal years. Beginning in fiscal year 2013-14, an annual transition adjustment was calculated for each school district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. In each year, school districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district’s funding gap.

The Base Grants per unit of ADA for each grade span are as follows: (i) \$7,083 for grades K-3; (ii) \$7,189 for grades 4-6; (iii) \$7,403 for grades 7-8; and (iv) \$8,578 for grades 9-12. Beginning in fiscal year 2013-14, the Base Grants are to be adjusted for COLAs by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of the grade span adjustment in early grades and the provision of career technical education in high schools. Following full implementation of the LCFF, and unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Such school districts must also make progress towards this grade span adjustment goal in proportion to the growth in their funding over the implementation period. AB 97 also provides additional add-ons to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

School districts that serve students of limited English proficiency ("EL" students), students from low income families that are eligible for free or reduced priced meals ("LI" students) and foster youth are eligible to receive additional funding grants. Enrollment counts are unduplicated, such that students may not be counted as both EL and LI (foster youth automatically meet the eligibility requirements for free or reduced priced meals, and are therefore not discussed herein separately). AB 97 authorizes a supplemental grant add-on (each, a "Supplemental Grant") for school districts that serve EL/LI students, equal to 20% of the applicable Base Grant multiplied by such districts' percentage of unduplicated EL/LI student enrollment. School districts whose EL/LI populations exceed 55% of their total enrollment are eligible for a concentration grant add-on (each, a "Concentration Grant") equal to 50% of the applicable Base Grant multiplied the percentage of such district's unduplicated EL/LI student enrollment in excess of the 55% threshold. The District does qualify for a Concentration Grant.

Table 13 below shows a breakdown of the District’s ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2013-14 through 2017-18.

**TABLE 13**  
**ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE**  
**Fiscal Years 2013-14 through 2017-18**  
**Beaumont Unified School District**

<i>Fiscal Year</i>	<i>Average Daily Attendance<sup>(1)</sup></i>					<i>Enrollment</i>	
	<i>K-3</i>	<i>4-6</i>	<i>7-8</i>	<i>9-12</i>	<i>Total ADA</i>	<i>Total Enrollment<sup>(2)</sup></i>	<i>% of EL/LI Enrollment<sup>(2)</sup></i>
2013-14	2,717	1,961	1,272	2,485	8,435	8,918	61.84%
2014-15	2,790	2,090	1,278	2,529	8,687	9,059	60.67
2015-16	2,904	2,146	1,274	2,613	8,937	9,355	60.62
2016-17	3,023	2,187	1,341	2,720	9,271	9,689	59.64
2017-18	3,107	2,255	1,387	2,773	9,522	10,000	59.80

<sup>(1)</sup> Reflects P-2 ADA.

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

Source: Beaumont Unified School District.

For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target (“ERT”) add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in fiscal year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding, implementation of a varying COLA in fiscal years 2014-15 through 2020-21, and restoration of categorical funding to pre-recession levels. The ERT add-on will be paid incrementally over the implementing period of the LCFF. As in prior fiscal years, the District believes that it will qualify for the ERT add-on for fiscal year 2018-19.

The sum of a school district’s adjusted Base, Supplemental and Concentration Grants will be multiplied by such district’s P-2 ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT or categorical block grant add-ons, will comprise a district’s total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district’s share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the Legislature to school districts.

Certain schools districts, known as “basic aid” districts, have allocable local property tax collections that equal or exceed such districts’ total LCFF allocation, and result in the receipt of no State apportionment aid. Basic aid school districts receive only special categorical funding, which is deemed to satisfy the “basic aid” requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for basic aid districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants. The District does not currently qualify as a basic aid district.

**Accountability.** Regulations adopted by the State Board of Trustees require that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such districts on the basis of the number and concentration of such EL/LI students, and detail the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt local control and accountability plans (“LCAPs”) disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs are required to be adopted every three years, beginning in fiscal year 2014-15, and updated annually thereafter. The State Board of Trustees has adopted a template LCAP for use by school districts.

**Support and Intervention.** AB 97, as amended by SB 91, establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district’s LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district’s LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the LCAP or annual update adheres to the State template, and (ii) the district’s budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP. The District has updated its LCAP for fiscal year 2018-19.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district’s strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. The State Board of Education has developed rubrics to assess school district performance and the need for support and intervention.

The State Superintendent of Public Instruction (the “State Superintendent”) is further authorized, with the approval of the State Board of Trustees, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized (i) to modify a district’s LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

**Other State Sources.** In addition to State allocations determined pursuant to the LCFF, the District receives other State revenues consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs.

**Other Sources.** The federal government provides funding for several school district programs, including specialized programs such as Every Student Succeeds, special education programs, and programs under the Educational Consolidation and Improvement Act. In addition, a small part of a school district's budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.

**Historical General Fund Financial Information**

Table 14 below summarizes the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for fiscal years 2012-13 through 2016-17. The figures in Table 14 below are taken from the District's audited financial statements. See APPENDIX B—"DISTRICT'S 2016-17 AUDITED FINANCIAL STATEMENTS" for further detail on the District's financial condition as of June 30, 2017.

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**Table 14**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Summary of General Fund Revenues, Expenditures and Changes in Fund Balance<sup>(1)</sup>**

	Audited 2012-13	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17
<b>SOURCES</b>					
Revenue Limit/LCFF Sources	\$ 44,221,163	\$ 54,194,066	\$ 61,652,898	\$ 73,192,213	\$ 81,702,183
Federal Sources	2,859,599	3,288,955	3,920,869	3,623,698	3,486,483
Other State Revenues	7,976,028	4,572,972	5,454,116	11,289,840	8,850,086
Other Local Revenue	3,745,108	4,506,741	3,719,283	2,496,862	2,800,010
Total Revenues	<u>\$ 58,801,898</u>	<u>\$ 66,562,734</u>	<u>\$ 74,747,166</u>	<u>\$ 90,602,613</u>	<u>\$ 96,838,762</u>
<b>EXPENDITURES</b>					
Instruction	\$ 33,907,726	\$ 40,001,071	\$ 43,013,292	\$ 48,690,617	\$ 54,840,376
Instruction – Related Services	6,295,103	6,892,186	7,878,321	9,693,190	10,102,449
Pupil Support Services	4,326,807	5,009,169	5,872,928	6,455,802	7,826,100
General Administration	4,389,576	5,671,692	5,585,558	7,331,753	5,590,501
Plant Services	6,580,166	6,937,806	7,549,523	8,384,758	8,802,934
Capital Outlay	1,683,856	82,342	652,002	316,465	6,260
Ancillary Services	522,784	596,729	609,016	785,333	851,729
Community Services	17,599	18,004	30,773	32,971	40,523
Enterprise Activities	28,228	78,913	28,232	38,600	18,072
Other Outgo	(138,178)	(171,809)	418,480	1,113,671	1,803,635
Debt Service	390,022	390,022	390,022	930,898	973,371
Total Expenditures	<u>\$ 58,003,689</u>	<u>\$ 65,506,125</u>	<u>\$ 72,028,117</u>	<u>\$ 83,774,058</u>	<u>\$ 90,844,949</u>
Excess of (Deficiency) of Revenues Over Expenditures	\$ 798,209	\$ 1,056,609	\$ 2,719,049	\$ 6,828,555	\$ 5,993,813
<b>OTHER FINANCING SOURCES</b>					
Transfers In/Positive Sources	\$ 0	\$ 108,624	\$ 162,678	\$ 149,600	\$ 538,895
Transfers Out/Negative Sources	(250,082)	(1,506,684)	(67,625)	(506,986)	(1,696,428)
Total Other Financing Sources (uses)	<u>\$ (250,082)</u>	<u>\$ (1,398,060)</u>	<u>\$ 95,053</u>	<u>\$ (357,386)</u>	<u>\$ (1,157,533)</u>
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Uses	\$ 548,127	\$ (341,451)	\$ 2,814,102	\$ 6,471,169	\$ 4,836,280
Fund Balance (Deficit), July 1	\$ 22,017,632	\$ 22,565,759	\$ 22,224,308	\$ 25,038,410	\$ 31,891,730 <sup>(2)</sup>
Fund Balance (Deficit), June 30	\$ 22,565,759	\$ 22,224,308	\$ 25,038,410	\$ 31,509,579	\$ 36,728,010

<sup>(1)</sup> In accordance with GASB 54, includes the financial activity of the Special Reserve Fund for other than Capital Outlay Projects.

<sup>(2)</sup> Due to an overstatement of prior liabilities by \$382,151 in fiscal year 2015-16, the fund balance in the General Fund on July 1, 2016 was restated to \$31,891,730. See Note 16 to the District's 2016-17 Audited Financial Statements attached as Appendix B hereto.

Source: Beaumont Unified School District Audited Financial Statements for fiscal years 2012-13 through 2016-17.

Table 15 below compares the District's General Fund Adopted Budget to its General Fund actual revenues and expenditures for fiscal year 2015-16 and its General Fund Adopted Budget to its General Fund actual revenues and expenditures for fiscal year 2016-17.

**Table 15**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Comparison of General Fund Budgeted to General Fund Revenues and**  
**Expenditures for fiscal years 2015-16 and 2016-17**

	<i>2015-16</i>		<i>2016-17</i>	
	<i>Budget</i>	<i>Actual</i>	<i>Budget</i>	<i>Actual</i>
<b>Revenues</b>				
LCFF Sources	\$ 71,288,891	\$ 73,192,213	\$ 81,666,408	\$ 81,702,183
Federal	3,023,405	3,623,698	3,308,933	3,486,483
Other State	7,799,157	11,289,840	8,448,601	8,50,086
Other Local	<u>1,334,451</u>	<u>2,471,475</u>	<u>2,077,265</u>	<u>2,800,010</u>
Total Revenues	\$ 83,445,904	\$ 90,577,226	\$ 95,501,207	\$ 96,838,762
<b>Expenditures</b>				
Certificated Salaries	\$ 35,797,552	\$ 36,385,698	\$ 40,225,419	\$ 40,249,388
Classified Salaries	11,172,431	11,350,074	12,367,711	12,599,600
Employee Benefits	15,487,138	18,257,228	20,897,622	20,653,006
Books and Supplies	7,008,581	4,155,217	5,756,544	4,448,923
Services and Other Operating Expenditures	9,751,928	9,839,691	11,159,650	10,367,553
Capital Outlay	847,447	1,377,054	414,136	373,564
Debt Service	-	-	-	973,371
Other Outgo/Transfers of Indirect Costs	<u>749,802</u>	<u>2,409,096</u>	<u>1,545,329</u>	<u>1,179,544</u>
Total Expenditures	\$ 80,814,879	\$ 83,774,058	\$ 92,366,411	\$ 90,844,949
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 2,631,025	\$ 6,803,168	\$ 3,134,796	\$ 5,993,813
<b>Other Financing Sources</b>				
Transfers In/Positive Sources	\$ 90,600	\$ 149,600	\$ -	\$ 538,895
Transfers Out/Negative Sources	<u>--</u>	<u>(506,986)</u>	<u>-</u>	<u>(1,696,428)</u>
Total Other Financing Sources and Uses	\$ 90,600	\$ (357,386)	\$ -	\$ (1,157,533)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 2,721,625	\$ 6,445,782	\$ 3,134,796	\$ 4,836,280
Fund Balances, July 1	\$ 20,440,069	\$ 25,038,410	\$ 31,891,730 <sup>(1)</sup>	\$ 31,891,730 <sup>(1)</sup>
Fund Balances, June 30	\$ 23,171,294	\$ 31,509,579	\$ 35,026,526	\$ 36,728,010

<sup>(1)</sup> Due to an overstatement of prior liabilities by \$382,151 in fiscal year 2015-16, the fund balance in the General Fund on July 1, 2016 was restated to \$31,891,730. See Note 16 to the District's 2016-17 Audited Financial Statements attached as Appendix B hereto.

Source: Beaumont Unified School District adopted budget for fiscal years 2015-16 and 2016-17 and Audited Financial Statements for fiscal years 2015-16 and 2016-17.

Table 16 below sets forth the District's General Fund balance sheet for the 2012-13 through 2016-17 fiscal years.

**Table 16**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Summary of Combined General Fund Balance Sheet<sup>(1)</sup>**

	<i>Audited</i> 2012-13	<i>Audited</i> 2013-14	<i>Audited</i> 2014-15	<i>Audited</i> 2015-16	<i>Audited</i> 2016-17
<b>Assets</b>					
Deposits and Investments	\$ 13,488,434	\$ 18,342,912	\$ 24,777,026	\$ 30,931,799	\$ 36,235,283
Accounts Receivable	10,098,336	7,502,565	3,870,147	3,888,669	3,395,150
Due from Other Funds	326,586	808,202	356,164	2,600,558	837,611
Inventory/Prepaid Expenditures	21,136	42,009	54,151	31,867	163,278
Total Assets	<u>\$ 23,934,492</u>	<u>\$ 26,695,688</u>	<u>\$ 29,057,488</u>	<u>\$ 37,452,893</u>	<u>\$ 40,631,322</u>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities</b>					
Accounts Payable	\$ 959,870	\$ 3,455,375	\$ 3,516,242	\$ 4,891,337	\$ 3,567,121
Due to Other Funds	250,117	1,012,634	502,836	1,051,833	33,670
Deferred Revenue	158,746	3,371	-	144	302,521
Total Liabilities	<u>\$ 1,368,733</u>	<u>\$ 4,471,380</u>	<u>\$ 4,019,078</u>	<u>\$ 5,943,314</u>	<u>\$ 3,903,312</u>
<b>Fund Balances</b>					
Reserved	\$ 1,283,251	\$ 2,069,607	\$ 1,707,859	\$ 1,604,143	\$ 2,153,275
Unreserved	21,282,508	20,154,701	23,330,551	29,905,436	34,574,735
Total Fund Equity	<u>\$ 22,565,759</u>	<u>\$ 22,224,308</u>	<u>\$ 25,038,410</u>	<u>\$ 31,509,579</u>	<u>\$ 36,728,010</u>
Total Liabilities and Fund Balances	<u>\$ 23,934,492</u>	<u>\$ 26,695,688</u>	<u>\$ 29,057,488</u>	<u>\$ 37,452,893</u>	<u>\$ 40,631,322</u>

<sup>(1)</sup> In accordance with GASB 54, includes the financial activity of the Special Reserve Fund for other than Capital Outlay Projects.  
Source: Beaumont Unified School District Audited Financial Statements for fiscal years 2012-13 through 2016-17.

**Current Financial Condition**

The District's financial condition is closely linked to the finances of the State. Until fiscal year 2012-13, the State had experienced an ongoing structural budget deficit for several years. Although the State budget is balanced in the current fiscal year, future budget decisions by the State could have an adverse impact on the District's financial condition. See "STATE OF CALIFORNIA FISCAL ISSUES."



Table 17 below contains the difference between the District's adopted General Fund budget for fiscal year 2017-18 and the estimated actual results for such fiscal year, as set forth in the 2018-19 Adopted Budget. Table 17 also shows the 2018-19 Adopted Budget.

**Table 17**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Comparison of 2017-18 Adopted Budget to 2017-18 Estimated Actual Results;**  
**2018-19 Adopted Budget<sup>(1)</sup>**

	<i>2017-18 Budget</i>	<i>2017-18 Estimated Actuals</i>	<i>Difference Between 2017-18 Budget and 2017-18 Estimated Actuals</i>	<i>2018-19 Adopted Budget</i>
<b>SOURCES</b>				
State Apportionment Sources	\$ 84,886,933.00	\$ 85,642,037.00	0.9%	\$ 92,963,595.00
Federal Revenues	3,516,489.00	4,201,328.00	14.3	3,950,685.00
Other State Revenues	6,583,715.00	9,093,134.00	27.6	9,575,043.00
Other Local Revenue	<u>5,764.00</u>	<u>7,610,890.00</u>	132,041.8	<u>6,571,011.00</u>
Total Revenues	\$ 94,992,901.00	\$ 106,547,389.00	10.8%	\$ 113,060,334.00
<b>EXPENDITURES</b>				
Certificated Salaries	\$ 43,447,145.00	\$ 44,949,275.00	3.3%	\$ 48,872,041.00
Classified Salaries	13,178,184.00	13,798,805.00	4.5	16,259,652.00
Employee Benefits	22,978,414.00	23,270,600.00	1.3	27,444,707.00
Books and Supplies	8,180,683.00	9,252,749.00	11.6	5,570,515.00
Contracted Services & Operating Expenditures	11,413,010.00	13,194,243.00	13.5	13,000,347.00
Capital Outlay	1,372,279.00	1,884,819.00	27.2	389,061.00
Direct Support/Indirect Costs/Other Outgo	<u>1,695,460.00</u>	<u>8,880,415.00</u>	523.8	<u>4,385,912.00</u>
Total Expenditures	\$ 102,265,181.00	\$ 115,230,906.00	12.7%	\$ 115,922,235.00
Excess of Revenues over (Under) Expenditures	\$ (7,272,280.00)	\$ (8,683,517.00)		\$ (2,861,901.00)
<b>OTHER FINANCING SOURCES</b>				
Transfers In	\$ 110,280.00	\$ 120,000.00		\$ 120,000.00
Transfers Out	<u>702,915.00</u>	<u>791,782.00</u>		<u>694,429.00</u>
Total Other sources (uses)	\$ (592,635.00)	\$ (671,782.00)		\$ (574,429.00)
Net Increase (Decrease) in Fund Balance	\$ (7,864,915.00)	\$ (9,355,299.00)		\$ (3,436,330.00)
Fund Balance (Deficit), July 1	\$ 28,504,091.00	\$ 31,078,583.00		\$ 22,396,870.00
Fund Balance (Deficit), June 30	\$ 20,639,176.00	\$ 22,396,870.00		\$ 18,960,540.00

<sup>(1)</sup> Exclusive of activity in the Special Reserve Fund for Other than Capital Outlay.  
Source: Beaumont Unified School District 2017-18 Adopted Budget and 2018-19 Adopted Budget.

In the 2018-19 Adopted Budget, the District projects that General Fund expenditures will exceed revenues by approximately \$13.7 million through fiscal year 2020-21, leaving a projected ending General Fund balance of \$8,704,910 at June 30, 2021. The primary causes of this deficit spending are projected increases in costs for Special Education, retirement, and personnel costs for a new elementary school. The 2018-19 Adopted Budget assumes a growth in ADA of 2% annually through June 30, 2021. If it becomes necessary to reduce expenditures, the District will make adjustments to the LCAP and other expenditures in order to reduce General Fund expenses in future fiscal years. Potential cost reducing measures include staffing adjustments, adjustments to services and programs, and maximization of facilities use].

State law requires the District to maintain a reserve for economic uncertainty equal to at least 3% of General Fund expenditures and other financing uses. The District is also required to demonstrate that available reserves for each of the next two fiscal years will equal or exceed the required amount. In the 2018-19 Adopted Budget, the District projects a reserve for economic uncertainties of 11.33%, 11.33% and 7.02% as a

percentage of expenditures and other financing uses in fiscal years 2018-19, 2019-20 and 2020-21, respectively. In addition, amounts in the District's Special Reserve Fund for other than Capital Outlay Projects are unrestricted and can be used to cover General Fund expenditures, if necessary. As of June 30, 2018, \$5,022,840 was on deposit in the Special Reserve Fund for other than Capital Outlay Projects. Under SB 858 (as defined below), the District's future reserves may be capped at 6% of annual expenditures in certain fiscal years. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2" and "STATE OF CALIFORNIA FISCAL ISSUES—General Overview—*School Reserves*." As the reserve cap provisions of SB 858 are dependent upon State budget actions, the District cannot predict the fiscal years in which the cap may apply.

For several fiscal years prior to fiscal year 2013-14 and in fiscal year 2016-17, the State deferred the payment of certain revenues due to school districts to the following fiscal year. In accordance with State accounting standards, the District applies an accrual method of accounting and, accordingly, Tables 14 through 17 do not reflect any deferral of revenues to future fiscal years. The District does not anticipate needing to borrow funds on a short-term basis in order to have adequate cash on hand to meet expenditures in the current fiscal year or next fiscal year, though the District may borrow from internal funds or from the County Treasurer and Tax Collector on a short-term basis, if needed. See "DISTRICT DEBT STRUCTURE—Short-Term Debt" herein.

### **Revenue Sources**

The District categorizes its General Fund revenues into four sources: (1) state apportionment funding (this was funded from revenue limit sources through fiscal year 2012-13 and thereafter pursuant to the LCFF); (2) federal sources; (3) other State sources; and (4) other local sources. Each of these revenue sources is described below.

### **State Apportionment Funding**

The primary source of District funding prior to fiscal year 2013-14 came from the State in the form of base revenue limit funding per unit of ADA. In fiscal year 2013-14, state apportionment funding changed as a result of the LCFF. See "DISTRICT FINANCIAL MATTERS—State Funding of Education." For fiscal years 2015-16 and 2016-17, the District received \$73,192,213 and \$81,702,183, respectively, from LCFF sources, representing approximately 80.8% and 84.4%, respectively, of its General Fund revenues. The District estimates that it received \$85,642,037 from LCFF sources in fiscal year 2017-18, representing approximately 80.4% of its General Fund revenues, and has budgeted for the receipt of \$92,963,595 from LCFF sources for fiscal year 2018-19, representing approximately 82.2% of its General Fund revenues.

### **Federal Revenues**

The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools. The federal revenues, all of which are restricted, comprised approximately 4.0% and 3.6% of General Fund revenues in fiscal years 2015-16 and 2016-17, respectively. Federal revenues are estimated to have comprised approximately 3.9% of General Fund revenues in fiscal year 2017-18, and are budgeted to comprise approximately 3.5% in fiscal year 2018-19.

### **Other State Sources**

In addition to State apportionment funding discussed above, the District receives other State revenues ("Other State Sources"). In fiscal years 2015-16 and 2016-17, Other State Sources equaled approximately 12.5% and 9.1%, respectively, of total General Fund revenues. In fiscal year 2017-18, Other State Sources are estimated to have equaled approximately 8.5% of total General Fund revenues, and are budgeted to comprise approximately 8.5% in fiscal year 2018-19.

### **Other Local Sources**

In addition to property taxes, the District receives additional local sources (“Other Local Sources”) from items such as the leasing of property owned by the District and interest earnings. These Other Local Sources (including tuition and transfers) equaled approximately 2.8% and 2.9% of the total General Fund revenues in fiscal years 2015-16 and 2016-17, respectively. Other Local Sources are estimated to have equaled approximately 7.1% of General Fund revenues in fiscal year 2017-18, and are budgeted to comprise approximately 5.8% in fiscal year 2018-19.

### **Capital Projects Funds**

The District maintains a Capital Facilities Fund, separate and apart from the General Fund, to account for developer fees collected by the District. The District’s developer fees may be utilized for any capital purpose related to growth. Separate and apart from the General Fund, the District also maintains a Building Fund to account for general obligation bond proceeds restricted to capital projects, a County Schools Facilities Fund to account for State apportionments provided for the construction and reconstruction of school facilities and a Special Reserve Fund for Capital Outlay to act as a reserve for Board of Trustees designated construction projects.

Collection of developer fees followed a formal declaration by the Board of Trustees which addressed the overcrowding of District schools as a result of new development. These fees are collected pursuant to certain provisions of the Education Code of the State. The square-foot amounts are periodically adjusted for inflation and the current developer fee is \$4.05 per square foot of habitable space on domestic housing developments. The current developer fee on commercial/industrial developments is \$0.61 per square foot. As of June 30, 2018, a balance of \$10,332,572 existed in the District’s Capital Facilities Fund, there was a balance of \$3,869,402 in the Building Fund and there was a balance of \$0 in the Special Reserve Fund for Capital Outlay. Except for amounts in the Special Reserve Fund for Capital Outlay, which may be expended on one-time non-capital costs other than salaries and benefits, the amounts in these funds are restricted to pay for capital improvements.

## **DISTRICT DEBT STRUCTURE**

### **Long-Term Debt**

As of June 30, 2017, the District had \$101,116,656 of long-term debt outstanding, exclusive of its net pension liability. See “THE DISTRICT—Retirement System—GASB Statement Nos. 67 and 68.” The District has not issued any additional general obligation bonds or certificates of participation since June 30, 2017. Other than the Bonds, the District has no current plans to issue additional general obligation bonds or certificates of participation.

A schedule of changes in long-term debt for the year ended June 30, 2017 is as follows:

**Table 18**  
**BEAUMONT UNIFIED SCHOOL DISTRICT**  
**Long-Term Debt**

<i>Governmental Activities</i>	<i>Balance July 1, 2016</i>	<i>Additions</i>	<i>Deductions</i>	<i>Balance June 30, 2017</i>	<i>Balance Due In One Year</i>
General Obligation Bonds	\$ 67,501,669	\$ 15,061,310	\$ 1,222,048	\$ 81,340,931	\$ 1,470,000
Premium on Issuance	1,172,923	1,364,317	113,521	2,423,719	-
Certificates of Participation <sup>(1)</sup>	4,806,812	-	444,423	4,362,389	448,672
Premium on Issuance	78,795	-	6,603	72,732	-
Site Lease Agreement	6,906,741	-	604,900	6,301,841	636,680
Compensated Absences Payable	534,342	-	31,474	502,868	-
Supplement Early Retirement Program	166,856	-	166,856	-	-
Net OPEB Obligation	<u>5,422,593</u>	<u>1,514,525</u>	<u>824,942</u>	<u>6,112,176</u>	<u>-</u>
	<u>\$ 86,590,731</u>	<u>\$ 17,940,152</u>	<u>\$ 3,414,227</u>	<u>\$ 101,116,656</u>	<u>\$ 2,555,352</u>

<sup>(1)</sup> Represents lease payments due under that certain Lease/Purchase Agreement, dated as of April 1, 2016, by and between the Beaumont Unified School District Public Facilities Corporation and the District.  
Source: Beaumont Unified School District.

Additional information regarding the long-term debt and its scheduled repayment is set forth in Note 9 to the District's 2016-17 Audited Financial Statements attached as Appendix B hereto.

#### Short-Term Debt

The District currently has no short-term debt outstanding, and the District does not expect to issue any tax and revenue anticipation notes for fiscal year 2018-19. If any tax and revenue anticipation notes are issued, they will be payable from General Fund revenues and other lawfully available funds of the District and must mature in not more than 15 months from their issuance.

#### Direct and Overlapping Debt

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of the District is shown in Table 19 below. Tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations are excluded from the debt statement.

*The information in the following table has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified this information and do not guarantee its accuracy.*

**Table 19**  
**STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**  
**Beaumont Unified School District**  
**As of July 1, 2018**

2017-18 Assessed Valuation: \$5,402,714,780  
 2017-18 Adjusted Assessed Valuation: \$4,881,378,672

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 7/1/18</u>
Riverside County Flood Control Agency Zone No. 4	0.003%	\$ 503
Mount San Jacinto Community College District	6.332	11,256,080
San Bernardino Valley Joint Community College District	0.005	22,023
<b>Beaumont Unified School District</b>	<b>100.000</b>	<b>68,503,652<sup>(1)</sup></b>
San Geronio Memorial Healthcare District	64.718	71,539,277
City of Beaumont Community Facilities District No. 93-1	100.000	220,637,547
City of Calimesa Community Facilities District No. 2012-1	100.000	7,030,000
California Statewide Community Development Authority 1915 Act Bonds	58.318	<u>6,333,335</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$385,322,417</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	2.048%	\$16,646,740
Riverside County Pension Obligation Bonds	2.048	5,455,155
San Bernardino County General Fund Obligations	0.002	7,360
San Bernardino County Pension Obligation Bonds	0.002	6,722
San Bernardino County Flood Control District General Fund Obligations	0.002	1,367
<b>Beaumont Unified School District Certificates of Participation</b>	<b>100.000</b>	<b>9,578,879</b>
City of Banning Certificates of Participation	8.108	<u>83,487</u>
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$31,779,710</b>
Less: Riverside County supported obligations		<u>68,676</u>
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$31,711,034</b>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>	10.298-18.933%	\$3,599,039
<b>GROSS COMBINED TOTAL DEBT</b>		<b>\$420,701,166<sup>(2)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$420,632,490</b>

Ratios to 2017-18 Assessed Valuation:

<b>Direct Debt (\$68,503,652)</b> .....	<b>1.27%</b>
Total Overlapping Tax and Assessment Debt .....	7.13%
<b>Total Direct Debt (\$78,082,531)</b> .....	<b>1.45%</b>
Gross Combined Total Debt .....	7.79%
Net Combined Total Debt .....	7.79%

(1) Excludes accreted interest of capital appreciation bonds. Does not reflect the issuance of the Bonds.

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

Source: California Municipal Statistics, Inc.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

*The principal of and interest on the Bonds are payable solely from the proceeds of an ad valorem tax levied by the Board of Supervisors of the County and the Board of Supervisors of the County of San Bernardino for the payment thereof. (See "SECURITY FOR THE BONDS" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 1A, 2, 22, 30 39, 46, 98 and 111 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 District to levy taxes and 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 District to levy taxes for payment of the Bonds. The tax to be levied by the County and the County of San Bernardino on behalf of the District for payment of the Bonds was approved by the District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.*

### **Article XIII A**

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on (a) indebtedness approved by the voters prior to July 1, 1978, and (b) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition. In 2000, Article XIII A was amended to allow for an increase in *ad valorem* taxes for bonded indebtedness incurred by a school district or community college district if approved by 55% or more of the votes cast. See "—Proposition 39" below.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The District is unable to predict the nature or magnitude of future revenue sources that may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

### **Unitary Property**

Some amount of property tax revenue of the District may be derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("unitary property"). Under the State Constitution, such property is assessed by the State Board of Equalization ("SBE") as part of a

“going concern” rather than as individual pieces of real or personal property. Such State-assessed unitary and certain other property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on any utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District.

### **Article XIII B**

On November 6, 1979, California voters approved Proposition 4, the so-called Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the state to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (a) if financial responsibility for providing services is transferred to the governmental entity, or (b) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979 on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (b) the investment of tax revenues and (c) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for local governments in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the local government’s option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the District over such two-year period above the

combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the appropriations limit are absorbed into the State's allowable limit. The District does not currently have and does not anticipate having "proceeds of taxes" in excess of its appropriations limit.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years. Pursuant to statute, if a school district receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the governing board, increase its appropriations limit to equal the amount received, provided that the State has sufficient excess appropriations limit in that fiscal year.

### Articles XIII C and XIII D

On November 5, 1996, California voters approved Proposition 218—Voters Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Among other things, Proposition 218 states that all taxes imposed by local governments shall be deemed to be either "general taxes" (imposed for general governmental purposes) or "special taxes" (imposed for specific purposes); prohibits special purpose government agencies, including school districts, from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Proposition 218 also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. A portion of the District's revenues are received annually from property taxes. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* taxes pledged to repay general obligation bonds. See "DISTRICT FINANCIAL MATTERS—Revenue Sources." In the case of *Bighorn-Desert View Water Agency v. Virgil (Kelley)* (the "Bighorn Decision"), the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIII C. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local



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

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

The provisions of Article XIII C and XIII D may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

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

#### **Proposition 46**

On June 3, 1986, California voters approved Proposition 46, which provided an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

#### **Proposition 39**

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

Section 1(b)(3) of Article XIII A has been added to exempt from the 1% *ad valorem* tax limitation under Section 1(a) of Article XIII A of the Constitution levies to pay bonds approved by the 55% of the voters, subject to the restrictions explained above. The *ad valorem* tax for payment on the Bonds falls within the exception described in the preceding sentence.

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

### **Propositions 98 and 111**

On November 8, 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). Proposition 98 changed State funding of public education below the university level and the operation of the State's appropriations limit, primarily by guaranteeing K-14 schools a minimum share of State General Fund revenues. Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 schools are guaranteed the greater of (a) 40.9% of State General Fund revenues (the "first test"), or (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"), or (c) a "third test" which would replace the second test in any year when the percentage growth in per capita State General Fund revenues from the prior year plus 1/2 of 1% is less than the percentage growth in California per capita personal income. Under the third test, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test would become a "credit" to schools which would be paid in future years when State General Fund revenue growth exceeds personal income growth.

Proposition 98 permits the Legislature by two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 schools' minimum funding formula for a one-year period, and any corresponding reduction in funding for that year will not be paid in subsequent years. However, in determining the funding level for the succeeding year, the formula base for the prior year will be reinstated as if such suspension had not taken place. In certain fiscal years, the State Legislature and the Governor have utilized this provision to avoid having the full Proposition 98 funding paid to support K-14 schools.

Proposition 98 also changes how tax revenues in excess of the State Appropriations Limit are distributed. "Excess" tax revenues are determined based on a two-year cycle, so that the State could avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year were under its limit. After any two-year period, if there are excess State tax revenues, 50% of the excess would be transferred to K-14 schools with the balance returned to taxpayers. Further, any excess State tax revenues transferred to K-14 schools 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 will not be increased by this amount.

Since Proposition 98 is unclear in some details, there can be no assurance that the Legislature or a court might not interpret Proposition 98 to require a different percentage of State General Fund revenues to be allocated to K-14 districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, some fiscal observers expect Proposition 98 to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State ability to fund such other programs by raising taxes.

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimums under the first test and the second test described above are dependent on State General Fund revenues. In several recent fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimums.

### **Proposition 1A and Proposition 22**

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Many of the provisions of Proposition 1A have been superseded by Proposition 22 enacted in November 2010.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, 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. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding California Assembly Bill x1 26 to be constitutional and California Assembly Bill x1 27 to be unconstitutional. As a result, all redevelopment agencies in California were dissolved on February 1, 2012, and the property tax revenue which previously flowed to the redevelopment agencies is now instead going to other local governments, including school districts. It is likely that the dissolution of redevelopment agencies has mooted the effects of Proposition 22.

## **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 increased the State Sales and Use Tax and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing 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 \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

The California Children’s Education and Health Care Protection Act of 2016 (also known as “Proposition 55”) is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Proposition 55 did not extend the temporary State Sales and Use Tax rate increase enacted under Proposition 30, which expired as of January 1, 2017.

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for K-14 school districts. See “– Propositions 98 and 111” herein. From an accounting perspective, the revenues generated from the personal income tax increases are being 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 board is prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

## **Proposition 2**

On November 4, 2014, voters approved the Rainy Day Budget Stabilization Fund Act (also known as “Proposition 2”). Proposition 2 is a legislatively-referred constitutional amendment which makes certain changes to State budgeting practices, including substantially revising the conditions under which transfers are made to and from the State’s Budget Stabilization Account (the “BSA”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58).

Under Proposition 2, beginning in fiscal year 2015-16 and each fiscal year thereafter, the State will generally be required to annually transfer to the BSA an amount equal to 1.5% of estimated State general fund revenues (the “Annual BSA Transfer”). Supplemental transfers to the BSA (a “Supplemental BSA Transfer”) are also required in any fiscal year in which the estimated State general fund revenues that are allocable to capital gains taxes exceed 8% of total estimated general fund tax revenues. Such excess capital gains taxes—net of any portion thereof owed to K-14 school districts pursuant to Proposition 98—will be transferred to the BSA. Proposition 2 also increases the maximum size of the BSA to an amount equal to 10% of estimated State general fund revenues for any given fiscal year. In any fiscal year in which a required transfer to the BSA would result in an amount in excess of the 10% threshold, Proposition 2 requires such excess to be expended on State infrastructure, including deferred maintenance.

For the first 15 year period ending with fiscal year 2029-30, Proposition 2 provides that half of any required transfer to the BSA, either annual or supplemental, must be appropriated to reduce certain State liabilities, including making certain payments owed to K-14 school districts, repaying State interfund borrowing, reimbursing local governments for State mandated services, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. Following the initial 15-year period, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the BSA to the reduction of such State liabilities. Any amount not applied towards such reduction must be transferred to the BSA or applied to infrastructure, as described above.

Proposition 2 changes the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the BSA. The Governor does not retain unilateral discretion to suspend transfers to the BSA, nor does the Legislature retain discretion to transfer funds from the BSA for any reason, as previously provided by law. Rather, the Governor must declare a "budget emergency," defined as an emergency within the meaning of Article XIII B of the Constitution or a determination that estimated resources are inadequate to fund State general fund expenditures, for the current or ensuing fiscal year, at a level equal to the highest level of State spending within the three immediately preceding fiscal years. Any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the BSA are limited to the amount necessary to address the budget emergency, and no draw in any fiscal year may exceed 50% of funds on deposit in the BSA unless a budget emergency was declared in the preceding fiscal year.

Proposition 2 also requires the creation of the Public School System Stabilization Account (the "PSSSA") into which transfers will be made in any fiscal year in which a Supplemental BSA Transfer is required (as described above). Such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would be otherwise paid to K-14 school districts as part of the minimum funding guarantee. A transfer to the PSSSA will only be made if certain additional conditions are met, as follows: (i) the minimum funding guarantee was not suspended in the immediately preceding fiscal year, (ii) the operative Proposition 98 formula for the fiscal year in which a PSSSA transfer might be made is "Test 1," (iii) no maintenance factor obligation is being created in the budgetary legislation for the fiscal year in which a PSSSA transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the fiscal year in which a PSSSA transfer might be made is higher than the immediately preceding fiscal year, as adjusted for ADA growth and cost of living. Proposition 2 caps the size of the PSSSA at 10% of the estimated minimum guarantee in any fiscal year, and any excess funds must be paid to K-14 school districts. Reductions to any required transfer to the PSSSA, or draws on the PSSSA, are subject to the same budget emergency requirements described above. However, Proposition 2 also mandates draws on the PSSSA in any fiscal year in which the estimated minimum funding guarantee is less than the prior year's funding level, as adjusted for ADA growth and cost of living.

### **California Senate Bill 222**

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, including the District.

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, and thus potentially improve ratings, interest rates and bond cost of issuance.

**Kindergarten Through Community College Public Education Facilities Bond Act of 2016**

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as Proposition 51) is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds by the State for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

**K-12 School Facilities.** Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, State grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

**Community College Facilities.** Proposition 51 includes \$2 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment. In order to receive funding, community college districts must submit project proposals to the Chancellor of the community college system, who then decides which projects to submit to the Legislature and Governor based on a scoring system that factors in the amount of local funds contributed to the project. The Governor and Legislature will select among eligible projects as part of the annual state budget process.

The table below shows the expected use of bond funds under Proposition 51:

**PROPOSITION 51  
Use of Bond Funds  
(In Millions)**

<b><u>K-12 Public School Facilities</u></b>	
New construction	\$3,000
Modernization	3,000
Career technical education facilities	500
Charter school facilities	500
Subtotal	\$7,000
<b><u>Community College Facilities</u></b>	
Total	\$2,000
	\$9,000

**Jarvis v. Connell**

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization

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

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Propositions 22, 26, 30, 39, 46, 98, 111 and 1A were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting school districts' revenues or such districts' ability to expend revenues.

There can be no assurance that the California electorate will not at some future time adopt other initiatives or that the Legislature will not enact legislation that will amend the laws or the Constitution of the State of California resulting in a reduction of amounts legally available to the District.

## **STATE OF CALIFORNIA FISCAL ISSUES**

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

### **General Overview**

***Financial Stress on State Budget.*** In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. Despite the recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potentially unfavorable changes to federal fiscal policies, the uncertain impact of the recent changes to the federal tax law and the significant unfunded liabilities of PERS, STRS, the University of California Retirement System and the State's retiree healthcare benefits plans which currently total in excess of \$280 billion. In addition, the State's revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State. See "—2018-19 State Budget."

***Cash Management by State and Impact on Schools.*** To conserve cash in light of declining revenues resulting from the last recession, the State enacted several statutes deferring the payment of amounts owed to public schools, until a later date in the current, or in a subsequent, fiscal year. This technique was used in all of the State's budget bills from fiscal year 2008-2009 through fiscal year 2012-13 and was again used in fiscal year 2016-17. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. These deferrals reduced amounts paid to K-12 districts and resulted in deferred payments that at one point totaled more than \$10 billion. These deferrals also created cash flow shortages for certain K-12 districts which required an increased level of cash flow borrowings. A substantial portion of the deferrals were repaid between fiscal years 2013-14 and 2017-18. There can be no assurances that the State will not elect to implement similar deferrals in the future. See "—2018-19 State Budget."

**School Reserves.** Senate Bill 858 (Stats. 2014, Chapter 32) (“SB 858”), trailer legislation to the 2014-15 State Budget, created new disclosure requirements effective beginning fiscal year 2015-16 for school districts that have general fund reserves in excess of the State minimum. Existing minimum reserve levels vary between one to five percent of general fund expenditures, depending on the size of the district, and generally require higher reserves for smaller school districts. SB 858 would require school districts to identify amounts in excess of their required reserves and explain the need for higher levels. This information must be disclosed at a public meeting and in each budget submitted to a county office of education. The LAO indicates that available data shows that virtually all school districts maintain excess reserves. As a result of the passage of Proposition 2 (discussed above), certain additional provisions of SB 858 have gone into effect that will cap school district reserve levels. Reserves will be capped in any fiscal year following a State deposit into the PSSSA created by Proposition 2. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 2.” Caps for most school districts will range between three to ten percent of annual general fund expenditures. SB 858 permits a county office of education to grant an exemption from the reserve cap for up to two years if a school district demonstrates that it would face extraordinary fiscal circumstances justifying a higher reserve.

### **2018-19 State Budget**

On June 27, 2018, the Governor signed into law the State budget for fiscal year 2018-19 (the “2018-19 Budget”). The following information is drawn from the Department of Finance’s summary of the 2018-19 Budget.

To protect against potential future economic recessions, the 2018-19 Budget fully funds the BSA with a total deposit of over \$4.35 billion and adds two additional reserves to State law: the Budget Deficit Savings Account, intended to facilitate supplemental payments to continue to fully fund the BSA; and the Safety Net Reserve Fund, intended to protect against potential future cuts to certain health and welfare programs.

For fiscal year 2017-18, the 2018-19 Budget projects total general fund revenues and transfers of \$129.8 billion and total expenditures of \$127.0 billion. The State is projected to end the 2017-18 fiscal year with total available general fund reserves of \$12.6 billion, including \$7.3 billion in the traditional general fund reserve and \$9.4 billion in the BSA. For fiscal year 2018-19, the 2018-19 Budget projects total general fund revenues of \$133.3 billion and authorizes expenditures of \$138.7 billion. The State is projected to end the 2018-19 fiscal year with total available general fund reserves of \$15.7 billion, including \$2.0 billion in the traditional general fund reserve and \$13.8 billion in the BSA. The projected ending balance in the BSA at the end of the 2018-19 fiscal year is expected to equal the BSA’s current constitutional maximum of 10 percent of the estimated general fund revenues for fiscal year 2018-19. See also “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2” herein.

For fiscal year 2018-19, the 2018-19 Budget sets the minimum funding guarantee at \$78.4 billion, reflecting a year-to-year increase of \$2.8 billion. With respect to K-12 education, ongoing Proposition 98 per-pupil expenditures in fiscal year 2018-19 are set at \$11,640. Other significant features with respect to K-12 education funding include the following:

- *Local Control Funding Formula* – An increase of \$3.7 billion in Proposition 98 funding to fully implement the LCFF, including a 2.71% COLA to the adjusted Base Grants for the prior year, and an additional \$570 million above the COLA as an ongoing increase to the LCFF.
- *Low-Performing Students Block Grant* – \$300 million in one-time Proposition 98 funding to provide resources to local education agencies with students who (1) perform at the lowest levels on the State’s academic assessments, and (2) do not generate supplemental LCFF funds or State or federal special education resources.



- *State System of Support* – An increase of \$57.8 million in Proposition 98 funding for county offices of education to provide technical assistance to local educational agencies.
- *Multi-Tiered Systems of Support (MTSS)* – \$15 million in one-time Proposition 98 funding to expand the State’s MTSS framework to foster positive school climate in both academic and behavioral areas.
- *California Collaborative for Educational Excellence* – \$13.3 million in one-time Proposition 98 funding for the California Collaborative for Educational Excellence (the “Collaborative”) and a co-lead county office of education effort to help build capacity for community engagement in the LCAP process, as well as \$11.5 million in Proposition 98 funding to support the Collaborative in its role within the statewide system of support.
- *Special Education Local Plan Area (SELPA) Technical Assistance* – \$10 million in Proposition 98 funding for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance within the Statewide system of support.
- *Career Technical Education (CTE)* – \$164 million in ongoing Proposition 98 funding to create a new K-12 CTE program funded through the Strong Workforce Program, which is administrated by the California Community College Chancellor’s Office, in consultation with the State Department of Education, as well as \$150 million in ongoing Proposition 98 funding to make permanent the State’s Career Technical Education Incentive Grant Program.
- *One-Time Discretionary Funding* – An increase of \$1.1 billion in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at local discretion. Similar to features included in prior State budgets, these funds would offset any applicable mandate reimbursement claims for these entities.
- *Special Education, Bilingual, and STEM Teachers* – \$75 million in one-time Proposition 98 funding to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs with \$50 million aimed at preparing and retaining special education teachers and \$25 million aimed at bilingual and STEM teachers; and \$50 million in one-time Proposition 98 funding to provide one-time competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers.
- *Classified School Employee Summer Assistance Program* – \$50 million in one-time Proposition 98 funding to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the school year and then paid during the summer recess period.
- *Classified School Employee Professional Development Block Grant Program* – \$50 million in one-time Proposition 98 funding for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.
- *Charter School Facility Grant Program* – \$21.1 million in one-time and \$24.8 million in ongoing Proposition 98 funding to reflect increases in programmatic costs.
- *Kids Code After School Program* – \$15 million in one-time Proposition 98 funding to increase opportunities for students in after-school programs to access computer coding education.
- *Fire-Related Support* – \$4.4 million in Proposition 98 funding over two years in property tax relief to schools impacted by the fires in Northern and Southern California in 2017, and an

additional \$25 million in Proposition 98 funding relief through the LCFF. The 2018-19 Budget also holds harmless the ADA used in calculating the LCFF for the school districts located in the counties affected by the fires for three years.

- *Fiscal Crisis and Management Assistance Team (FCMAT)* – \$972,000 in Proposition 98 funding to allow FCMAT to coordinate with county offices of education to offer more proactive and preventive services to fiscally distressed school districts, specifically those with a qualified interim budget status.

For additional information regarding the 2018-19 Budget, see the State Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The information presented on such website is not incorporated herein by reference.

### **Future Actions**

The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. State budget shortfalls or changes in funding formulas in future fiscal years may also have an adverse financial impact on the financial condition of the District.

### **State Dissolution of Redevelopment Agencies**

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

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

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other

pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, not to exceed \$250,000 in any year, to the extent such costs have been approved in an administrative budget; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

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

ABX1 26 states that in the future, pass-throughs shall be made in the amount "which would have been received had the redevelopment agency existed at that time," and that the County Auditor-Controller shall "determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved pursuant to the operation of [ABX1 26] using current assessed values and pursuant to statutory [pass-through] formulas and contractual agreements with other taxing agencies."

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

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

## LEGAL MATTERS

### Tax Matters

**Series E Bonds.** In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series E Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series E Bonds is exempt from State of California personal income tax.

Bond Counsel notes that, with respect to corporations, interest on the Series E Bonds may be included as an adjustment in calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a Series E Bond (the first price at which a substantial amount of the Series E Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Series E Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Series E Bond. The amount of original issue discount that accrues to the Beneficial Owner of the Series E Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

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

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

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Series E Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series E Bonds might be affected as a result of such an audit of the Series E Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Series E Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Series E Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE SERIES E BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE SERIES E BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE SERIES E BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE SERIES E BONDS. NO ASSURANCE CAN

BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE SERIES E BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE SERIES E BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE SERIES E BONDS.

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

Although Bond Counsel will render an opinion that interest on the Series E Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Series E Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Series E Bonds.

A copy of the proposed form of opinion of Bond Counsel with respect to the Series E Bonds is set forth in Appendix A-1 hereto.

**Refunding Bonds.** In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest with respect to the Refunding Bonds is exempt from State of California personal income tax.

The difference between the issue price of a Refunding Bond (the first price at which a substantial amount of the Refunding Bonds of the same series and maturity is to be sold to the public) and the stated redemption price at maturity (to the extent that such issue price is lower than the stated redemption price at maturity) with respect to such Refunding Bond constitutes original issue discount. Original issue discount accrues under a constant yield method. The amount of original issue discount deemed received by the Refunding Bond Owner will increase the Refunding Bond Owner's basis in the Refunding Bond.

The amount by which a Refunding Bond Owner's original basis for determining gain or loss on sale or exchange of the applicable Refunding Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Refunding Bond premium, which a Refunding Bond holder may elect to amortize under Section 171 of the Code; such amortizable Refunding Bond premium reduces the Refunding Bond Owner's basis in the applicable Refunding Bond (and the amount of taxable interest received), and is deductible for federal income tax purposes. The basis reduction as a result of the amortization of Refunding Bond premium may result in a Refunding Bond Owner realizing a taxable gain when a Refunding Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Refunding Bond to the Owner. Purchasers of Refunding Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Refunding Bond premium.

The federal tax and State of California personal income tax discussion set forth above is included for general information only and may not be applicable depending upon an owner's particular situation. The ownership and disposal of the Refunding Bonds and the accrual or receipt of interest (and original issue

discount) with respect to the Refunding Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Refunding Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Refunding Bonds.

A copy of the proposed form of opinion of Bond Counsel with respect to the Refunding Bonds is set forth in Appendix A-2 hereto.

### **Legal Opinion**

The legal opinions of Stradling Yocca Carlson & Rauth, a Professional Corporation, approving the validity of the Bonds, substantially in the forms set forth in Appendix A hereto, will be made available to purchasers at the time of original delivery of the Bonds and a copy of the applicable opinion will be delivered with each Bond. Bond Counsel expresses no opinion to the Owners of the Bonds or to the Beneficial Owners as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and expressly disclaims any duty to advise the Owners of the Bonds as to matters related to the Official Statement.

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

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

### **No Litigation**

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

The District has certain litigation pending regarding employment matters and other claims for damages. These matters have been referred to the District's insurance carriers for defense, and the District does not believe that the outcome in any of these cases will have a material financial impact on the District.

### **Verification**

Upon delivery of the Refunding Bonds, Causey, Demgen & Moore, P.C. (the "Verification Agent"), will deliver a report on the mathematical accuracy of certain computations based upon certain information and assertions provided to it by the Underwriter relating to (a) the adequacy of the amounts in the Escrow Fund to pay the redemption price and premium of, and interest on, the Refunded Bonds when due and (b) the computations of yield of the Refunding Bonds and investments, if any, in the Escrow Fund.

## **CONTINUING DISCLOSURE**

In connection with the issuance of the Bonds, the District will covenant for the benefit of bondholders (including Beneficial Owners of the Bonds) to provide certain financial information and operating data relating to the District (the "Annual Reports") by not later than February 1 following the end of the District's fiscal year (which currently ends June 30), commencing with the report for fiscal year 2018-19, and to provide notices of the occurrence of certain enumerated events. The Annual Reports and notices of enumerated events will be filed by the District in accordance with the requirements of Securities and Exchange Commission Rule

15c2-12(b)(5) (the “Rule”). The specific nature of the information to be contained in the Annual Reports or the notices of enumerated events is included in Appendix C—“FORM OF CONTINUING DISCLOSURE AGREEMENT” attached hereto. These covenants have been made in order to assist the Underwriter in complying with the Rule. In recent years, the District has utilized the services of a dissemination agent to assist it with complying with its continuing disclosure undertakings.

A review of the District’s compliance with its previous continuing disclosure undertakings was conducted in June 2018 with assistance from an outside consultant. The review found approximately eight instances within the past five years in which the District had failed to comply with its undertakings by failing to timely file notices of changes to the District’s underlying and insured ratings. The notices have since been filed and the District is currently in compliance with its continuing disclosure undertakings.

## MISCELLANEOUS

### Rating

Moody’s Investor’s Service, Inc. (“Moody’s”) has assigned the rating of “\_\_\_” to the Bonds. The rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from Moody’s. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the rating for the Bonds will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

### Underwriting

The Bonds are being purchased for reoffering by Piper Jaffray & Co. (the “Underwriter”). The Underwriter has agreed to purchase the Series E Bonds pursuant to a Bond Purchase Contract with the District and the County (the “Series E Contract of Purchase”) at the initial purchase price of \$\_\_\_\_\_ (which represents the aggregate principal amount of the Series E Bonds, [plus] net original issue [premium] of \$\_\_\_\_\_, less Underwriter’s discount of \$\_\_\_\_\_). The Series E Contract of Purchase provides that the Underwriter will purchase all of the Series E Bonds in the event any of the Series E Bonds are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Series E Contract of Purchase.

The Underwriter has also agreed to purchase the Refunding Bonds pursuant to a Bond Purchase Contract with the District (the “Refunding Contract of Purchase”) at the initial purchase price of \$\_\_\_\_\_ (which represents the aggregate principal amount of the Refunding Bonds, [plus] net original issue [premium] of \$\_\_\_\_\_, less Underwriter’s discount of \$\_\_\_\_\_). The Refunding Contract of Purchase provides that the Underwriter will purchase all of the Refunding Bonds in the event any of the Refunding Bonds are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Refunding Contract of Purchase.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the page following the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

In 2008, the Underwriter made a voluntary contribution to the committee that was formed to support the election that authorized the issuance of the Series E Bonds and the Refunded Bonds. The Underwriter has made and may make additional voluntary contributions to various committees or foundations also related to the District.

**Audited Financial Statements**

The District’s audited financial statements for fiscal year 2016-17 included in this Official Statement have been audited by Vavrinek, Trine, Day & Co., LLP (the “Auditor”), independent auditors. Attention is called to the scope limitation described in the Auditor’s report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for fiscal year 2016-17 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 1, 2017. See APPENDIX B—“DISTRICT’S 2016-17 AUDITED FINANCIAL STATEMENTS” herein.

**Financial Interests**

The fees being paid to the Underwriter and Bond Counsel are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

Participants in this bond issue may have made voluntary contribution(s) to support the election authorizing the Series E Bonds and the Refunded Bonds. These contributions are reported to the California Secretary of State by the filing of a Major Donor and Independent Expenditure Committee Campaign Statement (California Fair Political Practices Commission Form 461).

**ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to purchasers of the Bonds. Quotations from and summaries and explanations of the Bonds, and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Piper Jaffray & Co. is acting as the Underwriter of the Bonds and has received a variety of District reports. These reports include audits and budgets. Any Bond Owner may obtain copies of such reports, as available, from the District at 350 Brookside Avenue, Beaumont, California 92223. The District may impose a charge for copying, mailing and handling.

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

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

**BEAUMONT UNIFIED SCHOOL DISTRICT**

By: \_\_\_\_\_  
Superintendent



APPENDIX A-1

FORM OF OPINION OF BOND COUNSEL FOR SERIES E BONDS

*On the date of issuance of the Series E Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to issue its approving opinion relating to the Series E Bonds in substantially the following form:*

\_\_\_\_\_, 2018

Honorable Members of the Board of Trustees  
Beaumont Unified School District  
Beaumont, California

**Re:** \$ \_\_\_\_\_ *Beaumont Unified School District Election of 2008 General Obligation Bonds, Series E*

Dear Honorable Members of the Board of Trustees:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the County of Riverside (the "County") and the Beaumont Unified School District (the "District") taken in connection with the authorization and issuance of the District's Election of 2008 General Obligation Bonds, Series E in the aggregate principal amount of \$ \_\_\_\_\_ (the "Series E Bonds") and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County, the District, the initial purchaser of the Series E Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Series E Bonds have been issued by the County on behalf of the District pursuant to Article 4.5, Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution, a resolution adopted by the Board of Trustees of the District on \_\_\_\_\_, 2018 (the "District Resolution") and a resolution adopted by the Board of Supervisors of the County on \_\_\_\_\_, 2018 (the "County Resolution"). Capitalized terms not otherwise defined herein shall have the meaning set forth in the County Resolution.

The Series E Bonds mature on the dates and in the amounts referenced in the Bond Purchase Contract relating to the Bonds. The Series E Bonds are dated their date of delivery and bear interest payable semiannually on each February 1 and August 1, commencing February 1, 2019, at the rates per annum referenced in the County Resolution. The Series E Bonds are registered bonds as set forth in the County Resolution.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Series E Bonds have been duly and validly authorized and constitute the legal, valid and binding obligations of the District enforceable in accordance with the terms of the County Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California. The Series E Bonds are obligations of the District but are not a debt of the County, the State of California or any other political subdivision thereof within the meaning of any constitutional or

statutory limitation, and neither the faith and credit nor the taxing power of the County, the State of California, or any such political subdivisions is pledged for the payment thereof.

(2) The County Resolution has been duly adopted by the Board of Supervisors of the County and constitutes a legal, valid and binding obligation of the County. The District Resolution has been duly adopted by the Board of Trustees of the District and constitutes a legal, valid and binding obligation of the District. The County Resolution and the District Resolution are enforceable in accordance with their terms except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California, provided, however, we express no opinion as to the enforceability of provisions of the District Resolution and the County Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

(3) The Series E Bonds are secured by the proceeds of *ad valorem* taxes levied upon taxable property in the District on which the Board of Supervisors of the County and the Board of Supervisors of the County of San Bernardino have the power to levy and are obligated by statute to levy without limit as to rate or amount (except as to certain personal property which is taxable at limited rates) for payment of the Series E Bonds and the interest thereon.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Series E Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

(5) Interest (and original issue discount) on the Series E Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Series E Bond (the first price at which a substantial amount of the Series E Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Series E Bond (to the extent the redemption price at maturity is more than the issue price) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Series E Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Series E Bond owner will increase the Bond owner's basis in the applicable Series E Bond. Original issue discount that accrues for the Series E Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and is exempt from State of California personal income tax.

(7) The amount by which a Series E Bond owner's original basis for determining loss on sale or exchange in the applicable Series E Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable bond premium reduces the bond owner's basis in the applicable Series E Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond owner realizing a taxable gain when a Series E Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Series E Bond to the owner.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Series E Bonds are subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might

cause interest (and original issue discount) on the Series E Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series E Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Series E Bonds.

Certain agreements, requirements and procedures contained or referred to in the District Resolution, the County Resolution and the Tax Certificate executed by the District with respect to the Series E Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax exempt obligations. We express no opinion as to the effect on exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on any Series E Bonds if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The opinions expressed herein and the exclusion of interest on the Series E Bonds from gross income for federal income tax purposes may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement as bond counsel to the District terminates upon the issuance of the Series E Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Series E Bonds or other offering material relating to the Series E Bonds and expressly disclaim any duty to advise the owners of the Series E Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX A-2

FORM OF OPINION OF BOND COUNSEL FOR REFUNDING BONDS

*On the date of issuance of the Refunding Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to issue its approving opinion relating to the Refunding Bonds in substantially the following form:*

\_\_\_\_\_, 2018

Honorable Members of the Board of Trustees  
Beaumont Unified School District  
Beaumont, California

Re: \$ \_\_\_\_\_ Beaumont Unified School District 2018 General Obligation Refunding Bonds  
(Election of 2008, Series C) (Federally Taxable)

Dear Honorable Members of the Board of Trustees:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Beaumont Unified School District (the "District") taken in connection with the authorization and issuance of the District's 2018 General Obligation Refunding Bonds (Election of 2008, Series C) (Federally Taxable) in the aggregate principal amount of \$ \_\_\_\_\_ (the "Refunding Bonds"), and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County of Riverside (the "County"), the District and others. We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to above. Furthermore, we have assumed compliance with all covenants and agreements contained in the resolution authorizing the issuance of the Refunding Bonds adopted by the Board of Trustees of the District on \_\_\_\_\_, 2018 (the "Refunding District Resolution").

The Refunding Bonds have been issued by the District pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and the Refunding District Resolution. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Refunding District Resolution.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Refunding Bonds have been duly and validly authorized and constitute legal, valid and binding obligations of the District enforceable in accordance with the terms of the Refunding District Resolution, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California. The Refunding Bonds are obligations of the District but are not a debt of the County, the County of San Bernardino, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and neither the faith and credit nor the taxing power of the County, the County of San Bernardino, the State of California, or any such political subdivisions is pledged for the payment thereof.

(2) The Refunding District Resolution has been duly adopted by the Board of Trustees of the District and constitutes the legal, valid and binding obligation of the District. The Refunding District Resolution is enforceable in accordance with its terms except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by limitations on legal remedies against public agencies in the State of California, provided, however, we express no opinion as to the enforceability of provisions of the Refunding District Resolution as to indemnification, penalty, contribution, choice of law, choice of forum or waiver contained therein.

(3) The Refunding Bonds are secured by the proceeds of *ad valorem* taxes levied upon taxable property in the District which the Board of Supervisors of the County and the Board of Supervisors of San Bernardino County have the power to levy and are obligated by statute to levy without limit as to rate or amount (except as to certain personal property which is taxable at limited rates) for payment of the Refunding Bonds and the interest thereon.

(4) Interest (and original issue discount) on the Refunding Bonds is not excluded from gross income for federal income tax purposes; however, such interest (and original issue discount) is exempt from State of California personal income tax.

Except as set forth in paragraph (4) above, we express no opinion as to any tax consequences related to the Refunding Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Refunding Bonds or other offering material relating to the Refunding Bonds and expressly disclaim any duty to advise the owners of the Refunding Bonds with respect to matters contained in the Official Statement.

Our engagement as bond counsel to the District terminates upon the issuance of the Refunding Bonds.

Respectfully submitted,

**APPENDIX B**

**DISTRICT'S 2016-17 AUDITED FINANCIAL STATEMENTS**

## APPENDIX C

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of \_\_\_\_\_ 1, 2018, is by and between the Beaumont Unified School District (the "District") and Applied Best Practices, LLC, as dissemination agent (the "Dissemination Agent"), in connection with the issuance of \$\_\_\_\_\_ of the District's Election of 2008 General Obligation Bonds, Series E (the "Series E Bonds"), and \$\_\_\_\_\_ of the District's 2018 General Obligation Refunding Bonds (Election of 2008, Series C) (Federally Taxable) (the "Refunding Bonds," and with the Series E Bonds, the "Bonds"). The Series E Bonds are being issued pursuant to a resolution of the Board of Trustees of the District dated \_\_\_\_\_, 2018, and a resolution of the Board of Supervisors of the County of Riverside (the "County") dated \_\_\_\_\_, 2018 (together, the "Series E Resolution"). The Refunding Bonds are being issued pursuant to a resolution of the Board of Trustees of the District dated \_\_\_\_\_, 2018 (the "Refunding Resolution"). The District and the Dissemination Agent covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the District and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

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

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

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Superintendent of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean, initially, Applied Best Practices, LLC, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designed in writing by the District and which has been filed with the then current Dissemination Agent a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

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

"Official Statement" shall mean the Official Statement for the Bonds dated \_\_\_\_\_, 2018.

"Participating Underwriter" shall mean Piper Jaffray & Co. as the original underwriter of the Bonds.

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

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent upon written direction to, not later than the February 1 following the end of the District’s fiscal year, commencing with the report for the fiscal year ending June 30, 2019, provide to the MSRB the first Annual Report due by February 1, 2020 and each Annual Report due thereafter, which Annual Report shall be consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be provided to the MSRB in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

The Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The District’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The District will promptly notify the MSRB and the Dissemination Agent, if other than the District, of a change in the fiscal year dates. The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).

(c) If the District is the Dissemination Agent and the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, in a timely manner, send a notice to the MSRB in substantially the form attached to this Disclosure Agreement as Exhibit A. If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall, in a timely manner, send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) confirm the electronic filing requirements of the MSRB for the Annual Reports; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB. The Dissemination Agent’s duties under this clause (ii) shall exist only if the District provides the Annual Report to the Dissemination Agent for filing.

(e) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB’s EMMA system or in another manner approved under the Rule.



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

(a) (i) The audited financial statements of the District for the most recent fiscal year of the District then ended; (ii) the most recently adopted budget of the District and, if required to be prepared and filed, the First Interim Report for the current fiscal year; and (iii) an update of the information contained in Tables 1 through 3 and 13 contained under the headings "TAX BASE FOR REPAYMENT OF THE BONDS" and "DISTRICT FINANCIAL MATTERS" in the Official Statement. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the District in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the District shall be audited by such auditor as shall then be required or permitted by State law. Audited financial statements shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the District may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the District shall modify the basis upon which its financial statements are prepared, the District shall provide a notice of such modification to the MSRB, in the manner provided in Section 5(g), including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the change in accounting basis.

(b) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determinations of taxability or of the Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

1. unless described in subsection 5(a)(5), notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

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

(d) If the District determines that knowledge of the occurrence of a Listed Event under subsection 5(b) would be material under applicable federal securities laws, the District shall file a notice of such occurrence with EMMA in a timely manner not more than ten (10) business days after the event.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the District and that the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds

pursuant to the Resolution. In each case of the Listed Event, the Dissemination Agent shall not be obligated to file a notice as required in this subsection (f) prior to the occurrence of such Listed Event.

(g) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The obligation of the District and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Applied Best Practices, LLC. The Dissemination Agent may resign by providing thirty days written notice to the District. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment. (a) This Disclosure Agreement may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) this Disclosure Agreement as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) there shall have been delivered to the District an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the same effect as set forth in clause (2) above, (4) the District shall have received and delivered to the Dissemination Agent, if other than the District, an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the District, to the effect that the amendment does not materially impair the interests of the Owners, and (5) the District shall have delivered copies of such opinion and amendment to the MSRB.

(b) This Disclosure Agreement may be amended, by written agreement of the parties, upon obtaining consent of Owners at least 25% of the outstanding Bonds; provided that the conditions set forth in Section 8(a)(1), (2) and (3) have been satisfied; and provided, further, that the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder.

(c) To the extent any amendment to this Disclosure Agreement results in a change in the type of financial information or operating data provided pursuant to this Disclosure Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

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

The District acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the District, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the District under such laws.

SECTION 10. Default. In the event the District fails to comply with any provision in this Disclosure Agreement, the Dissemination Agent may (or shall upon direction of the Owners of 25% in aggregate principal of the Bonds then outstanding or the Participating Underwriter) take all action necessary to cause the District to comply with this Disclosure Certificate. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the District shall be paid (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Agreement.

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

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative: Superintendent  
Beaumont Unified School District  
350 Brookside Avenue  
Beaumont, California 92223

Dissemination Agent:

Applied Best Practices, LLC  
1990 MacArthur Blvd., Suite 1100  
Irvine, California 92612

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

BEAUMONT UNIFIED SCHOOL DISTRICT

By: \_\_\_\_\_  
Its: Superintendent

APPLIED BEST PRACTICES, LLC, as Dissemination Agent

By: \_\_\_\_\_  
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: Beaumont Unified School District

Name of Bond Issue: Beaumont Unified School District  
(Riverside County, California)  
Election of 2008 General Obligation Bonds, Series E

Beaumont Unified School District  
(Riverside County, California)  
2018 General Obligation Refunding Bonds (Election of 2002, Series B)  
(Federally Taxable)

Date of Issuance: \_\_\_\_\_, 2018

NOTICE IS HEREBY GIVEN that the Beaumont Unified School District (the "School District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement, dated as of \_\_\_\_\_ 1, 2018, by and between the School District and Applied Best Practices, as dissemination agent. [The School District anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_, 20\_\_

\_\_\_\_\_,  
Dissemination Agent

cc: School District

**APPENDIX D**

**RIVERSIDE COUNTY TREASURER'S STATEMENT  
OF INVESTMENT POLICY**

**APPENDIX E**  
**COUNTY INVESTMENT POOL MONTHLY REPORT**



## APPENDIX F

### INFORMATION CONCERNING THE CITY OF BEAUMONT AND COUNTY OF RIVERSIDE

*The following information concerning the City of Beaumont and the County of Riverside is presented as general background data. The City of Beaumont comprises approximately one-third of the District's territory. The Bonds are not an obligation of the City of Beaumont, the County of Riverside, the State of California or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

#### History

The word Beaumont, means "beautiful mountain" which aptly describes the locality of the City of Beaumont and its surrounding area. The origins of Beaumont can be traced back to the 1840s when the first business was established. By 1860, Beaumont had become a stop for the stage coaches in route to the gold fields of Yuma, Arizona. By January 26, 1876, the Southern Pacific had begun rail service through the Beaumont area, and by 1892, there were four passenger trains running from Colton to Banning. During this time, the train depot was constructed in Beaumont.

By the 1880s, George Egan had purchased ranch land in which he laid out the townsite of Beaumont, developed water resources and established the town's first hotel, the Summit House. The townsite was purchased in 1886 by Dr. H.C. Sigler and Associates, and by the following year, the town had planted trees, laid out streets and changed its name to Beaumont.

The community had experienced steady growth into the 20<sup>th</sup> Century; however, by the 1950s, the Southern Pacific had ceased its passenger train operations in the community. Beaumont's present day economic basis is structured on light manufacturing, agriculture and tourism. One of the key attractions of Beaumont is its Cherry Festival which dates back to 1919.

#### Population

The following table offers population figures for Beaumont, the County and the State as of January 1, 2014 through January 1, 2018.

<i>Area</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
City of Beaumont	41,920	43,906	45,617	46,730	48,237
County of Riverside	2,291,262	2,317,895	2,346,717	2,382,640	2,415,933
State of California	38,568,628	38,912,464	39,179,627	39,500,973	39,809,693

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties and the State, 2011-2018, with 2010 Benchmark, Sacramento, California, May 2018.

## Employment

The following table sets forth the principal employers located in the County.

### COUNTY OF RIVERSIDE LARGEST EMPLOYERS 2017

<i>Name of Business</i>	<i>Employees</i>	<i>Type of Business</i>
County of Riverside	22,538	County Government
University of California-Riverside	8,686	University
March Air Reserve Base	8,500	Military Reserve Base
Amazon	7,500	Distribution Center
Kaiser Permanente Riverside Medical Center	5,739	Medical Center
Corona-Norco Unified School District	5,399	School District
Riverside Unified School District	4,236	School District
Pechanga Resort and Casino	4,000	Casino & Resort
Riverside University Health Systems-Medical Center	3,876	Medical Center
Eisenhower Medical Center	3,665	Medical Center

Source: County of Riverside 'Comprehensive Annual Financial Report' for the year ending June 30, 2017.

## Employment and Industry

Employment data by industry is not separately reported on an annual basis for Beaumont but is compiled for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the "MSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the MSA has large and growing commercial and service sector employment, as reflected in the table below. The following table represents the Annual Average Labor Force and Industry Employment for the MSA for the period from 2013 through 2017.

### RIVERSIDE-SAN BERNARDINO-ONTARIO MSA (Riverside and San Bernardino Counties) Industry Employment & Labor Force - by Annual Average March 2017 Benchmark

	2013	2014	2015	2016	2017
Civilian Labor Force	1,893,100	1,921,000	1,956,900	1,984,900	2,023,200
Civilian Employment	1,706,800	1,765,300	1,828,200	1,866,600	1,920,400
Civilian Unemployment	186,300	155,700	128,600	118,300	102,800
Civilian Unemployment Rate	9.8%	8.1%	6.6%	6.0%	5.1%
Total Farm	14,500	14,400	14,800	14,600	14,400
Total Nonfarm	1,233,300	1,289,300	1,353,100	1,401,900	1,451,600
Total Private	1,008,100	1,060,500	1,119,800	1,159,600	1,201,600
Goods Producing	158,600	170,200	183,000	191,500	196,600
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Service Providing	1,074,700	1,119,100	1,170,100	1,210,500	1,255,000
Trade, Transportation and Utilities	299,700	314,900	333,200	348,100	366,000
Wholesale Trade	56,400	58,900	61,600	62,800	63,700
Retail Trade	164,800	169,400	174,300	178,000	182,100
Transportation, Warehousing and Utilities	78,400	86,600	97,400	107,300	120,200
Information	11,500	11,300	11,400	11,500	11,300
Financial Activities	41,800	42,900	43,900	44,600	44,500
Professional and Business Services	131,900	138,700	147,400	145,000	147,200
Educational and Health Services	187,600	194,800	205,100	214,300	224,800
Leisure and Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Government	<u>225,200</u>	<u>228,800</u>	<u>233,300</u>	<u>242,300</u>	<u>250,000</u>
Total, All Industries	<u>1,247,800</u>	<u>1,303,700</u>	<u>1,367,900</u>	<u>1,416,600</u>	<u>1,466,000</u>

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, March 2017 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the years 2013 through 2017 for Beaumont, the County, the State and the nation as a whole.

**CITY OF BEAUMONT, COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA AND UNITED STATES  
Average Annual Civilian Labor Force, Employment and Unemployment**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(1)</sup></i>	<i>Unemployment<sup>(2)</sup></i>	<i>Unemployment Rate (%)<sup>(3)</sup></i>
<b>2013</b>				
Beaumont	18,500	17,400	1,100	5.9%
Riverside County	996,400	897,700	98,700	9.9
State of California	18,625,000	16,958,400	1,666,600	8.9
United States <sup>(4)</sup>	155,389,000	143,929,000	11,460,000	7.4
<b>2014</b>				
Beaumont	10,400	18,100	900	4.9%
Riverside County	1,013,500	930,400	83,100	8.2
State of California	18,758,400	17,351,300	1,407,100	7.5
United States <sup>(4)</sup>	155,922,000	146,305,000	9,617,000	6.2
<b>2015</b>				
Beaumont	19,500	18,800	800	3.9%
Riverside County	1,035,700	966,300	69,400	6.7
State of California	18,896,500	17,724,800	1,171,700	6.2
United States <sup>(4)</sup>	157,130,000	148,834,000	8,296,000	5.3
<b>2016</b>				
Beaumont	19,900	19,200	700	3.6%
Riverside County	1,052,600	988,200	64,500	6.1
State of California	19,093,700	18,048,800	1,044,800	5.5
United States <sup>(4)</sup>	159,187,000	151,436,000	7,751,000	4.9
<b>2017</b>				
Beaumont	18,600	18,000	600	3.0%
Riverside County	1,072,500	1,016,200	56,300	5.2
State of California	19,312,000	18,393,100	918,900	4.8
United States <sup>(4)</sup>	160,320,000	153,337,000	6,982,000	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.

(4) Not strictly comparable with data for prior years.

Source: State of California Employment Development Department, based on 2017 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

## Retail Sales

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions is presented in the following table.

**CITY OF BEAUMONT**  
**Taxable Retail Sales**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Taxable Transactions in Thousands of Dollars)**

<i>Year</i>	<i>Retail Stores</i>		<i>Total All Outlets</i>	
	<i>No. of Permits</i>	<i>Taxable Transactions</i>	<i>No. of Permits</i>	<i>Taxable Transactions</i>
2012	930	307,002	1,101	334,876
2013	877	322,102	1,046	352,449
2014	892	336,528	1,064	370,748
2015	956	347,301	1,219	394,993
2016	975	358,146	1,264	414,906

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

## Construction Activity

The following table shows building permit valuations and new housing units in Beaumont for 2013 through 2017.

**CITY OF BEAUMONT**  
**Building Permit Valuation and New Housing Units**

<i>Residential</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
New Single – Dwelling	\$ 80,511,577	\$ 72,619,770	\$77,731,107	\$ 81,007,088	\$ 121,095,776
Multifamily – Dwelling	--	--	--	3,870,527	265,080
Additions, Alterations	542,050	709,874	595,241	750,057	441,300
Total Residential	81,053,627	73,329,644	78,326,348	\$ 82,351,691	\$ 121,802,156
No. of New Dwelling Units	496	435	452	481	717

Source: Construction Industry Research Board.

## Community Services and Facilities

Police protection is provided by the Beaumont Police Department with assistance from the Riverside County Sheriff. Fire protection is contracted with the Riverside County Fire Department located in the City. Water and sewer services are provided by the Beaumont-Cherry Valley Water District. Natural gas is provided by Southern California Gas Company, electric power by Southern California Edison Company, telephone services by Verizon and waste disposal by the City of Beaumont of which it has contracts with Waste Management of Inland Valleys.

Beaumont is serviced by San Gorgonio Memorial Hospital located in the City of Banning bordering the City. There are 2 medical centers in the community, with 2 urgent care centers. Numerous doctors, dentists, optometrists and other medical professionals are located in the area. The California Department of Forestry provides paramedic services to the community. Educational services are provided by the Beaumont Unified School District. There is also a Christian private school. Nearby are Mt. San Jacinto Community College; Crafton Hills College; College of the Desert; University of Redlands; California State University, San Bernardino and University of California, Riverside.

Cultural and recreational facilities include 17 churches, a library, a museum, a weekly newspaper and 3 parks, including a municipal pool. The local area also provides local and regional parks, museums and 30 minute access to the Oak Glen Orchard attractions, a local apple growing tourist area which attracts more than one million visitors each year. One of the nation's largest Factory Outlet Malls is within 10 minutes of the City and a one hour driving distance includes the San Bernardino Mountain resorts, Palm Springs with numerous resort areas, Lake Perris State Recreational area, the Beach Cities and numerous Southern California attractions.

### **Transportation**

Several main highways serve Beaumont. These include U.S. Interstate 10 and State Highways 60 and 79.

Air transportation is currently available from Ontario International Airport, 45 miles to the west, the Palm Springs Airport, 35 miles to the east, and will soon be available from San Bernardino International Airport. Redlands Airport provides additional air transportation facilities.

Local and interurban bus transportation is provided through Omnitrans Bus Service which is linked to the Southern California Rapid Transit District. Connections are available to Greyhound and Trailways Bus Lines which provide service to other local areas and additional transcontinental service. Dial-a-Ride also provides local bus service.

### **Climate**

The climate of Beaumont is characterized as Mediterranean. Summers are hot and dry with an average high of 95°F to a low of 57°F. Winters are cool and moist with an average temperature high of 47°F to a low of 36°F. The average yearly rainfall is approximately 17 inches per year.

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities within a maturity 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.

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

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

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

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



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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.