

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the assessed valuation of property within the District.

Alternative Method of Tax Distribution – “Teeter Plan”

The County has implemented an alternative method for the distribution of secured property taxes to local agencies, known as the “**Teeter Plan**.” The Teeter Plan provisions are now set forth in Sections 4701 to 4717 of the State Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as “bank” and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. While a county benefits from the penalties associated with these delinquent taxes when they are paid, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The Board of Supervisors of the County adopted the Teeter Plan on June 29, 1993. The County’s Teeter Plan applies to the District and to the *ad valorem* property tax to be levied to pay the principal of and interest on the Bonds. The District will receive 100% of the *ad valorem* property tax levied to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. The County has never discontinued the Teeter Plan with respect to any levying agency, and the District is not aware of any plans by the County to discontinue the Teeter Plan.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of assessments (if a county has elected to include assessments), 100% of the assessment delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the assessment. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the county as an interest-free offset against future advances of tax levies under the Teeter Plan.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. A supplemental tax is levied when property changes hands or new construction is completed which produces additional revenue.

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty (i.e., interest) to the time of redemption and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the County.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on specified property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

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Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy and collect all property taxes, and prescribed how levies on county-wide property values (except for levies to support prior voter-approved indebtedness) are to be shared with local taxing entities within each county. The following table shows secured *ad valorem* taxes for the payment of bonded indebtedness of the District, and amounts delinquent as of June 30, for Fiscal Year 2008-09 through Fiscal Year 2017-18:

Table 7

**SUMMARY OF SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2008-09 through 2017-18
Menifee Union School District**

| <u>Fiscal Year</u> | <u>Secured Tax Charge</u> ⁽¹⁾ | <u>Amount Delinquent June 30</u> | <u>% Delinquent June 30</u> |
|--------------------|--|--------------------------------------|---------------------------------|
| 2008-09 | \$1,792,216 | \$139,501 | 7.78% |
| 2009-10 | 2,027,190 | 110,626 | 5.46 |
| 2010-11 | 2,010,502 | 61,100 | 3.04 |
| 2011-12 | 2,087,110 | 47,116 | 2.26 |
| 2012-13 | 2,123,869 | 49,080 | 2.31 |
| 2013-14 | 2,188,261 | 39,733 | 1.82 |
| 2014-15 | 2,389,133 | 35,665 | 1.49 |
| 2015-16 | 2,340,799 | 39,179 | 1.67 |
| 2016-17 | 2,743,901 | 40,590 | 1.48 |
| 2017-18 | 5,575,082 | 56,582 | 1.01 |

⁽¹⁾ General obligation bond debt service levy only.

Source: California Municipal Statistics, Inc.

Tax Rates

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

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

The table below provides historical total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area (TRA 26-020) ⁽¹⁾ within the District from Fiscal Year 2014-15 through Fiscal Year 2018-19.

Table 8

**SUMMARY OF AD VALOREM TAX RATES
Fiscal Years 2014-15 through 2018-19
Menifee Union School District**

| | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> |
|---|----------------|----------------|----------------|----------------|------------------------|
| General | 1.00000 | 1.00000 | 1.00000 | 1.00000 | |
| Menifee Union School District | .03275 | .03010 | .03269 | .06080 | |
| Perris Union High School District | .06303 | .06236 | .06092 | .05675 | |
| Mount San Jacinto Community College District | - | - | .01394 | .01320 | |
| Metropolitan Water District | .00350 | .00350 | .00350 | .00350 | |
| Eastern Municipal Water District I.D. No. U-2 | <u>.01000</u> | <u>.01000</u> | <u>.01000</u> | <u>.01000</u> | |
| Total | 1.10928 | 1.11990 | 1.12031 | 1.14425 | 1.14216 ⁽²⁾ |

(1) 2018-19 assessed valuation for TRA 26-020 is \$501,584,319 which is 4.89% of the District's total assessed valuation.

(2) Detail not yet available.

Source: California Municipal Statistics, Inc.

In accordance with the State Constitution and the Education Code, bonds approved pursuant to the 2016 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved at such election will require an annual tax rate no greater than \$30.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Bonds, the District projects that the maximum tax rate required to repay the Bonds will be within that legal limit. This tax rate test applies only when new bonds are issued, and is not a legal limitation upon the authority of the Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Bonds and any other series of bonds issued pursuant to the 2016 Authorization in each year.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report as of October 1, 2018 (the "Debt Report") with respect to the District prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only. Neither the District nor the Underwriter have reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

Table 9

**STATEMENT OF DIRECT AND OVERLAPPING DEBT
MENIFEE UNION SCHOOL DISTRICT**

2018-19 Assessed Valuation: \$10,253,289,610

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> | <u>Debt 10/1/18</u> |
|---|---------------------|-------------------------------------|
| Metropolitan Water District | 0.347% | \$ 210,538 |
| Riverside County Flood Control Zone No. 4 Benefit Assessment District | 17.701 | 2,600,277 |
| Eastern Municipal Water District and Improvement Districts | 3.140-100. | 17,216,381 |
| Mount San Jacinto Community College District | 11.247 | 19,417,946 |
| Perris Union High School District | 60.854 | 62,684,910 |
| Menifee Union School District | 100. | 61,739,720 ⁽¹⁾ |
| Menifee Union School District Community Facilities Districts | 100. | 142,825,000 |
| Perris Union High School District Community Facilities District No. 92-1 | 99.889 | 34,002,190 |
| City of Lake Elsinore Community Facilities District No. 2003-2, I.A. B, C and D | 31.839-100. | 49,120,888 |
| City of Murrieta Community Facilities Districts | 100. | 27,038,037 |
| Eastern Municipal Water District Community Facilities Districts | 32.891-100. | 53,080,183 |
| Riverside County Community Facilities District No. 03-1 | 38.281 | 4,352,550 |
| Riverside County Community Facilities District No. 05-8 | 100. | 16,335,000 |
| Riverside County Community Facilities District No. 07-2 | 19.394 | 6,275,845 |
| City of Lake Elsinore Assessment District No. 93-1 | 41.947 | 5,060,906 |
| Eastern Municipal Water District, Assessment District No. 20 | 100. | <u>3,835,000</u> |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$505,795,371 |
| | | |
| <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Riverside County General Fund Obligations | 3.658% | \$29,730,589 |
| Riverside County Pension Obligation Bonds | 3.658 | 9,743,632 |
| Perris Union High School District Certificates of Participation | 60.854 | 4,254,306 |
| Menifee Union School District Certificates of Participation | 100. | 47,754,264 |
| City General Fund Obligations | Various | 2,211,030 |
| Western Municipal Water District General Fund Obligations | 0.053 | <u>5,095</u> |
| TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT | | \$93,698,916 |
| Less: Riverside County supported obligations | | <u>122,664</u> |
| TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT | | \$93,576,252 |
| | | |
| <u>OVERLAPPING TAX INCREMENT DEBT:</u> | | |
| Successor Agency to Murrieta Redevelopment Agency | 10.626% | \$4,033,098 |
| TOTAL OVERLAPPING TAX INCREMENT DEBT | | \$4,033,098 |
| | | |
| GROSS COMBINED TOTAL DEBT | | \$603,527,385 ⁽²⁾ |
| NET COMBINED TOTAL DEBT | | \$603,404,721 |

(1) Excludes general obligation bonds to be sold.

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

Ratios to 2018-19 Assessed Valuation:

| | |
|--|--------------|
| Direct Debt (\$61,739,720) | 0.60% |
| Total Direct and Overlapping Tax and Assessment Debt | 4.93% |
| Combined Direct Debt (\$109,493,984) | 1.07% |
| Gross Combined Total Debt | 5.89% |
| Net Combined Total Debt | 5.88% |

Ratios to Redevelopment Incremental Valuation (\$231,967,043):

| | |
|--|-------|
| Total Overlapping Tax Increment Debt | 1.74% |
|--|-------|

Source: California Municipal Statistics, Inc.

TAX MATTERS

Tax Exemption

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum tax.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between

compounding dates). Amortized bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Other than as expressly described above, Bond Counsel expresses no opinion regarding other federal or state tax consequences arising with respect to the Bonds, the ownership or disposition of the Bonds, or the amount, accrual or receipt of interest on, the Bonds.

OTHER LEGAL MATTERS

Continuing Disclosure

The District has covenanted for the benefit of registered owners and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the “**Annual Report**”) by not later than six months following the end of the District’s Fiscal Year (so long as the District’s Fiscal Year ends on June 30), commencing with the report for the 2017-18 Fiscal Year (which will be due not later than December 31, 2018), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of enumerated events will be filed by the Dissemination Agent on behalf of the District with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System (the “**EMMA System**”), or such other electronic system designated by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the “Rule”).

The District, the Menifee Union School District Public Financing Authority (the “**Authority**”) and community facilities district formed by the District, the continuing disclosure filings of which the

District is responsible for, have prior undertakings under the Rule. Specific instances of non-compliance with prior undertakings in the previous five years for the District, the Authority, and the District's community facilities districts are as described below.

Prior Compliance by the District:

- With respect to continuing disclosure undertakings made in connection with its outstanding general obligation bonds, the District's annual disclosure reports omitted certain required information and when submitting annual disclosure report filings for Fiscal Years 2012-13 and 2013-14, CUSIPS relating to three maturities of capital appreciation bonds were not included within the list of CUSIPS to which such reports related, resulting in EMMA not linking the reports to the CUSIPS for those three maturities, and the District did not timely file enumerated event notices for changes in the ratings of bond insurers and the underlying rating of the related bonds, in some cases filings were made up to two years after the rating event.

Prior Compliance by the Authority.

- With respect to certain outstanding revenue bonds of the Authority, certain annual reports were filed after their respective due dates, without a notice of late filing; the Authority's disclosure undertaking indicated that the audited financial statements of the Authority may be included within or constitute a portion of the audited financial statements of the District but for the fiscal year ending June 30, 2013, the Authority's annual disclosure report incorporated the audited financial statements of the District by reference to the EMMA website and such audited financial statements were not specifically linked to the CUSIP numbers for the Authority's bonds (though the District's audited financial statements were available on EMMA in connection with other outstanding obligations of the District and community facilities districts formed by the District); and the Authority did not timely file enumerated event notices for changes in the ratings of bond insurers.

Prior Compliance by Community Facilities Districts formed by the District:

- With respect to certain outstanding community facilities district bonds of community facilities districts formed by the District, in certain fiscal years the District's audited financial statements were not linked to the respective community facilities district bonds (though the District's audited financial statements were available on EMMA in connection with other outstanding obligations of the District).
- With respect to certain outstanding community facilities district bonds of community facilities districts formed by the District, certain fiscal year annual disclosure reports were filed after their respective due dates without a notice of late filing, and in at least one instance, an annual disclosure report does not show as having been timely posted on the EMMA system, though the District's records indicate that an annual disclosure report had been prepared in a timely manner.

The District, the Authority or the corresponding community facilities district, as applicable, has made remedial filings to correct all known instances of non-compliance during the last five years. The District believes it has established processes to ensure that the District, the Authority and the applicable community facilities districts will make required filings on a timely basis in the future, which include appointing its Municipal Advisor, Cooperative Strategies, LLC, as outside dissemination agent to assist in preparing the continuing disclosure filings of the District, the Authority and the community facilities districts, as applicable.

Bankruptcy; Limitation on Remedies

The opinion of Bond Counsel, the proposed form of which is attached hereto as APPENDIX D, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The rights of the Owners of the Bonds are subject to certain limitations. Enforceability of the rights and remedies of the Beneficial Owners of the Bonds, and the obligations incurred by the District, are limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against school and community college districts on the State. Bankruptcy proceedings, if initiated, could subject the beneficial owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code) (the "**Bankruptcy Code**"), which governs the bankruptcy proceedings for public agencies, no involuntary petitions for bankruptcy relief are permitted. While current State law precludes school districts from voluntarily seeking bankruptcy relief under Chapter 9 of the Bankruptcy Code without the concurrence of the State, such concurrence could be granted or State law could be amended.

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

The opinions of counsel, including Bond Counsel, delivered in connection with the issuance of the Bonds will be so qualified. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Legality for Investment in California

Under provisions of the State Financial Code, the Bonds are legal investments for commercial banks in the State 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 State Government Code, are eligible for security for deposits of public moneys in the State.

Information Related to Potential Community Reinvestment Act Credit

The National School Lunch Program (the “NSLP”) provides free or reduced price school meals to eligible students who participate in certain federal assistance programs (including the Supplemental Nutrition Assistance Program) or whose median household incomes fall below certain federal poverty thresholds. The table below includes the participation of District students in the NSLP. The District makes no representation as to the status of any investment in the Bonds under the Community Reinvestment Act.

| Facility | Eligibility Percent ⁽¹⁾ |
|----------|------------------------------------|
| | |
| | |
| | |

(1) Program Year 2018 Eligibility Date as of _____.
Source: California State Board of Education.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate or certificates to that effect will be executed 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 contesting the District’s ability to issue and retire the Bonds.

RATING

Moody’s Investors Services, Inc. (“**Moody’s**”) has assigned a rating for the Bonds of “___”. Generally, a rating agency bases its rating on information and material so furnished and on investigations, studies and assumptions made by the rating agency. Any rating is not a recommendation to buy, sell or hold the Bonds. A rating reflects only the view of the rating agency with respect to its rating and an explanation of the significance of such rating may be obtained from it. Some information provided to the rating agency by the District may not appear in this Official Statement. There is no assurance such rating or ratings will continue for any given period of time or that such rating or ratings will not be revised downward or withdrawn entirely or placed under review or “**Credit Alert**” by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price for the Bonds. The Underwriter and the District have not undertaken any responsibility after the offering of the Bonds to assure the maintenance of any rating or to oppose any such revision or withdrawal.

UNDERWRITING

The Bonds will be purchased by Stifel, Nicolaus & Company, Incorporated, as Underwriter (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$ _____, which is equal to the principal amount of the Bonds (\$ _____), [plus/less net original issue premium/discount] of \$ _____, and less an Underwriter's discount of \$ _____. The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreements, the approval of certain legal matters by counsel and certain other conditions.

ADDITIONAL INFORMATION

All data contained herein regarding the District has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made here, in light of the circumstances under which they were made, not misleading.

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.

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

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

MENIFEE UNION SCHOOL DISTRICT

By _____

Dr. Steve Kennedy, Superintendent of the
Meniffee Union School District

APPENDIX A

INFORMATION RELATING TO THE MENIFEE UNION SCHOOL DISTRICT'S OPERATIONS AND FINANCIAL INFORMATION

This Appendix contains a general description of the District (as defined below), its employees, retirement programs and enrolment history and projections. Also set forth are tables for the District showing summaries of recent audited results and current budget information.

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

THE DISTRICT

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

General Information

The Meniffee Union School District (the "District") is located in the southwestern portion of Riverside County (the "County"), partially in the City of Meniffee (the "City"). The District was originally formed in 1890 as the Meniffee School District and in 1951 the Meniffee School District and the Antelope School District merged into a single school district. The District currently operates two preschools, ten elementary schools and three middle schools, serving approximately 10,411 students. Two additional elementary schools and one middle school are being planned.

Administration

The District is governed by a five-member Board of Trustees (the "Board"), each member of which is elected based on specified geographic trustee areas to overlapping four-year terms. Elections for positions to the Board are held every two years, alternating between two and three available positions. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election. The management and policies of the District are administered by a Superintendent appointed by the Board who is responsible for day-to-day District operations as well as the supervision of the District's other key personnel. Dr. Steve Kennedy is the current District Superintendent. Current members of the Board, together with their office, trustee area and the date their current term expires, are listed below:

**BOARD OF TRUSTEES
Menifee Union School District**

| <u>Name</u> | <u>Office/Trustee Area</u> | <u>Current Term Expires</u> |
|---------------------------|---------------------------------------|-----------------------------|
| [_____] | President, <i>Trustee Area 3</i> | December 2018 |
| Reg Bennett | Vice President, <i>Trustee Area 1</i> | December 2020 |
| Randall T. Freeman, Ph.D. | Clerk, <i>Trustee Area 4</i> | December 2018 |
| Jerry Bowman | Deputy Clerk, <i>Trustee Area 5</i> | December 2018 |
| Robert "Bob" O'Donnell | Member, <i>Trustee Area 2</i> | December 2020 |

Source: Menifee Union School District.

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board. Brief biographies of key personnel follow:

Dr. Steve Kennedy, Superintendent. Dr. Kennedy was appointed as Superintendent of the District in April of 2013. Dr. Kennedy began his teaching career in Chula Vista and was also an administrator in several other school districts in San Diego County. He began his career in Menifee in 2005 as principal of Menifee Elementary School. In 2008, he became Assistant Superintendent for Personnel. Dr. Kennedy received a doctoral degree from Argosy University, a Master's Degree from National University and a Bachelor's Degree from San Diego State University.

Ambur Borth, Assistant Superintendent, Business. Ms. Borth was hired by the District in February 2017. Ms. Borth began her career at the Irvine Unified School District in 2002 and in 2004, was hired by the Palos Verdes Peninsula Unified School District as an accountant and later became Director of Fiscal Services. In 2014, Ms. Borth was hired by the Hawthorne School District as Chief Business Official. Ms. Borth received her Master of Business Administration in 2006, her Chief Business Official Training Certificate in 2008 and Chief Business Official Certification for the period from January 2016 through July 2020.

James Sellers, Director of Facilities. Mr. Sellers has been employed by the District since November 13, 1989. Mr. Sellers previous experience includes Business Manager for Sun Home Furnishings Inc. (DBA Perris Valley Construction), Carpet Kid, and Drapery Works. During his time with the District, Mr. Sellers has progressed in the Maintenance, Operations, and Transportation Department as Worker, Foreman, and Supervisor. Recently Mr. Sellers joined the Facilities team as Director of Facilities.

Labor Relations

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

As of the 2018-19 Adopted Budget, adopted June 26, 2018, the District estimates employment of 490.1 full-time equivalent certificated professionals as well as 324.2 full-time equivalent classified employees and 52.7 management staff. The District employees, except for management and some part-time employees, are represented by two employee bargaining units, the Menifee Teachers' Association and the Menifee Council of Classified Employees.

The certificated employees' contract with the Menifee Teachers' Association expired on June 30, 2017, and the contract with the Menifee Council of Classified Employees expired on June 30, 2017. The District and the respective employee bargaining units have been negotiating the new labor agreements and will continue under the existing contracts in the meantime. Set forth below is a table with the approximate number of certificated and classified full time equivalent employees.

TABLE A-1

**MENIFEE UNION SCHOOL DISTRICT
Certificated Employees and Classified Employees**

| <u>Fiscal Year</u> | <u>Certificated Employees</u> | <u>Classified Employees</u> | <u>Total Employees</u> |
|--------------------|-----------------------------------|---------------------------------|----------------------------|
| 2014-15 | 464 | 290.62 | 755 |
| 2015-16 | 468 | 308.14 | 776 |
| 2016-17 | 518 | 328.40 | 846 |
| 2017-18 | 530 | 341.45 | 869 |

Source: DataQuest.

Retirement Programs

The District participates in the State of California Teachers' Retirement System ("STRS") and the State of California Public Employees' Retirement System ("PERS"). The STRS plan covers certificated employees, as well as certain classified employees. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

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, with the Public Employees' Retirement Laws.

The District's contributions in recent years, and budgeted contributions in Fiscal Year 2018-19, are set forth below:

TABLE A-2

**MENIFEE UNION SCHOOL DISTRICT
District Contributions to STRS and PERS**

| <u>Fiscal Year</u> | <u>STRS</u> | <u>PERS</u> |
|------------------------|-------------|-------------|
| 2013-14 | \$2,835,731 | \$979,032 |
| 2014-15 | 3,286,506 | 1,069,024 |
| 2015-16 | 4,445,666 | 1,256,592 |
| 2016-17 | 5,852,144 | 1,539,610 |
| 2017-18 | 6,587,593 | 1,828,296 |
| 2018-19 ⁽¹⁾ | 7,584,666 | 2,199,170 |

⁽¹⁾ Fiscal Year 2018-19 budget.

STRS. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to State public schools. The District contribution rates are established by State statutes. In addition, participants are required to contribute to STRS. Participant contribution rates and benefits differ depending on whether an employee was hired on or before December 31, 2012 or on or after January 1, 2013 (see “ – Pension Reform Act of 2013 (Assembly Bill 340)” herein). Employer contribution rates, including those of the District, will increase through Fiscal Year 2020-21, as shown in the following table. Beginning Fiscal Year 2021-22, employer contribution rates will be set each year by the STRS Board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

TABLE A-3

**MENIFEE UNION SCHOOL DISTRICT
Overview of STRS Contribution Rates**

A.B. 1469 Increases

| <u>Effective Date</u> | <u>Prior Rate</u> | <u>Increase</u> | <u>Total</u> | <u>STRS Participant Required Contributions (Hired on or Before 12/31/2012 (Classic Members); 2% at 60 members)</u> | <u>STRS Participant Required Contributions (Hired on or After 1/1/2013 (New Members); 2% at 62 members)</u> |
|-----------------------|-------------------|-----------------|--------------|--|---|
| July 1, 2017 | 8.25% | 6.18% | 14.43% | 10.25% | 9.205% |
| July 1, 2018 | 8.25 | 8.03 | 16.28 | 10.25 | 10.205 |
| July 1, 2019 | 8.25 | 9.88 | 18.13 | 10.25 | 10.205 ⁽¹⁾ |
| July 1, 2020 | 8.25 | 10.85 | 19.10 | 10.25 | 10.205 ⁽¹⁾ |

⁽¹⁾ Projected, subject to change.

Source: *STRS Employer Directive 2018-02*.

The State also contributes to STRS. The State's contributions are set pursuant to the Education Code. The State's contribution reflects a base contribution and a supplemental contribution that will vary from year to year based on statutory criteria. For Fiscal Year 2017-18, the State will contribute 6.828% of members' annual earnings to the defined benefit plan. The State also contributes an amount based on a

percentage of annual member earnings into the STRS Supplemental Benefits Maintenance Account, which is used to maintain the purchasing power of benefits.

Interested persons may review the STRS website for details regarding its programs – <http://www.calstrs.com>. (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.)

PERS. The District also participates in PERS. Classified employees working four or more hours per day are members of the Public Employees’ Retirement System (defined above as “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, with the Public Employees’ Retirement Laws. School districts are currently required to contribute to PERS at an actuarially determined rate. The information in the table below is derived from the PERS’ Schools Pool Actuarial Valuation dated as of June 30, 2016. See “ – Pension Reform Act of 2013 (Assembly Bill 340)” herein.

TABLE A-4

**MENIFEE UNION SCHOOL DISTRICT
Overview of PERS Contribution Rates**

| <u>Effective Date</u> | <u>PERS School District Statutory Contribution Rates</u> | <u>PERS Participant Required Contributions (Hired on or Before 12/31/2012; 2% at 55 members)</u> | <u>PERS Participant Contributions (Hired on or After 1/1/2013 (New Members); 2% at 62 members))</u> |
|-----------------------------|--|--|---|
| July 1, 2015 | 11.847% | 7.0% | 6.00% |
| July 1, 2016 ⁽¹⁾ | 13.888 | 7.0 | 6.00 |
| July 1, 2017 ⁽¹⁾ | 15.531 | 7.0 | 6.50 |
| July 1, 2018 ⁽²⁾ | 18.062 | 7.0 | 7.25 |
| July 1, 2019 ⁽¹⁾ | 20.800 | 7.0 | 7.25 ⁽³⁾ |
| July 1, 2020 ⁽¹⁾ | 23.500 | 7.0 | 7.25 ⁽³⁾ |

⁽¹⁾ Source: Schools Pool Actuarial Valuation as of June 30, 2016.

⁽²⁾ Source: PERS website.

⁽³⁾ Subject to change.

Interested persons may review the PERS website for details regarding its programs – <http://www.calpers.ca.gov>. (This reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement.)

Contribution rates to STRS and PERS vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on state-wide rates set by the STRS and PERS retirement boards. STRS has a substantial state-wide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the District’s share. The District is unable to predict what the amounts of liabilities will be in the future, or the amount of future contributions that the District may be required to pay. See APPENDIX B – “DISTRICT’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2017” for additional information concerning STRS and PERS contained in the notes to the financial statements.

Actuarial Valuations – STRS. The governing board of STRS adopts a valuation of its defined benefit plan and its defined benefit supplemental plan each year. Due to the financial market declines which occurred during the Fiscal Year 2008-09 period, STRS investments lost substantial value at that time. Due to revised actuarial assumptions, among other factors, in May 2018, STRS announced that the funded status declined to 62.6% on a smoothed actuarial basis as of June 30, 2017, from 63.7% as of June 30, 2016, with the unfunded actuarial obligation increasing to \$107.3 billion as of June 30, 2017 from \$96.7 billion as of June 30, 2016. Contributions to STRS are generally adjusted by State law. The information herein has been obtained from the information published by STRS and is believed to be reliable but is not guaranteed as to accuracy or completeness.

On February 1, 2017, the STRS Board voted to adopt revised actuarial assumptions reflecting members' increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016, actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017, actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor. Due to the revised actuarial assumptions, among other factors, as noted in the preceding paragraph the funded status declined to 62.6% on a smoothed actuarial basis as of June 30, 2017. Changes to the unfunded actuarial obligation affect the contributions by school districts, plan participants and the State in different ways.

In 2014, the Governor signed into law a comprehensive funding strategy to address the unfunded liability at STRS. Consistent with this strategy, the 2018-19 Budget (the "2018-19 Budget") includes \$3.1 billion State general fund in 2018-19 for STRS. The 2018-19 Budget indicates that the funding strategy positions STRS on a sustainable path forward, eliminating the unfunded liability in about 30 years.

Actuarial Valuations – PERS. The governing board of the PERS adopts a valuation of its defined benefit plan each year. Due to the financial market declines which occurred during the Fiscal Year 2008-09 period, PERS investments lost substantial value at that time. In December 2009, the PERS Board adopted changes to its asset smoothing method in order to phase in over a three-year period the impact of the 24% investment loss experience by PERS in Fiscal Year 2008-09. Recent years have seen positive investment returns, however, on July 18, 2016, PERS reported a preliminary 0.61% return on investments for the 12-month period that ended June 30, 2016. The valuation for the period ending June 30, 2016, identified the level of funding for the PERS defined benefit program for schools at 71.9% of full funding. The market value of assets decreased from \$56,814,247,327 to \$55,784,854,423, the accrued liability increased from \$73,324,977,003 to \$77,543,827,270 and the unfunded accrued liability increased from \$16,510,729,676 to \$21,758,972,847.

PERS has adopted policies regarding contribution rates for the various plans and such plans are subject to modification as the PERS governing board determines how to address the unfunded actuarial obligations. At its April 17, 2013, meeting, the PERS Board approved a change to the PERS amortization and smoothing policies. Beginning with the June 30, 2015, valuation, the newly adopted direct smoothing method would be used to set the 2015-16 rates for the State and Schools defined benefit plans. Under this new direct rate smoothing method, all gains and losses will be paid over a fixed 30-year period with the increases or decreases in the rate spread over a 5-year period. The PERS governing board periodically adopts new assumptions regarding the longer life expectancy of state retirees. The June 30, 2016, valuation notes that the changes to the demographic assumptions approved by the Board would be used to set the Fiscal Year 2016-17 contribution rate for School employers. The increase in liability due to the new actuarial assumptions is calculated in the 2016 actuarial valuation and amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy. On December 21, 2016, the PERS governing board voted to lower the discount rate from 7.5% to 7.0% incrementally over the

three years (7.375% in 2017-18, 7.25% in 2018-19, and 7.0% in 2019-20). Lowering the discount rate, means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities.

At its February 13, 2018 meeting the PERS Board approved a recommendation to change the PERS amortization policy. Prior to this change, PERS employed an amortization and smoothing policy which spread investment returns over a 30-year period with the increases or decreases in the rate spread directly over a 5-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 20-year period rather than a 30-year period. The new amortization policy will be used for the first time in the June 30, 2019 actuarial valuations.

In April 2018, the PERS Board approved increased school employer contribution rates for Fiscal Year 2018-19 to address the lowering of the discount rate and the continued phase-in of the effect of investment losses during the two-year period ending June 30, 2016 and various demographic changes. The information herein has been obtained from the information published by PERS and is believed to be reliable but is not guaranteed as to accuracy or completeness.

Pension Reform Act of 2013 (Assembly Bill 340)

On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013 (the "**Implementation Date**"). For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which was \$121,388 for 2018, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and school district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

GASB 67 and 68

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

Statement No. 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50, Pension Disclosures as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. Statement No. 67 builds upon the existing framework for financial reports of

defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

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

The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

At Fiscal Year 2016-17 year end, the District had an outstanding pension liability of \$84,789,164, as a result of the adoption of GASB No. 68, Accounting Reporting for Pensions. The District has recorded its proportionate share of net pension liabilities for STRS and PERS. [The Fiscal Year 2017-18 year end outstanding pension liability has not been calculated as of [August 23, 2018]. See APPENDIX B – “DISTRICT’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2017 – Note 14” attached hereto.

Supplemental Early Retirement Plan

The District has offered two supplemental early retirement plans (“SERP”) depending on the year of eligibility to its certificated and classified employees. Eligible employees are provided up to \$10,000 for health and welfare benefits until they reach age 65 or 5 years, whichever occurs first. As of June 30, 2018, approximately 36 employees had elected to participate in the SERP. Additional employees may choose to participate in the SERP. The benefits and the future SERP obligations for those who have elected to participate are estimated to aggregate the following amounts:

TABLE A-5

**SUPPLEMENTAL EARLY RETIREMENT OBLIGATIONS
Menifee Union School District**

| <u>Year Ending June 30</u> | <u>Total Est. Payments</u> |
|--------------------------------|----------------------------|
| 2019 | 1,100,482 |
| 2020 | 999,678 |
| 2021 | 869,843 |
| 2022 | 744,726 |
| 2023 | <u>579,375</u> |
| Total | \$4,294,104 |

Source: Menifee Union School District.

Other Postemployment Benefits

The Postemployment Benefits Plan (the “**Plan**”) is a single-employer defined benefit health care program administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. As of June 30, 2018, membership of the Plan consisted of 36 retirees and beneficiaries then receiving benefits and no active Plan members.

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“**Statement No. 75**”). Other post-employment benefits (meaning other than pension benefits) (“**OPEB**”) generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement No. 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement No. 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement No. 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement No. 75 replaces GASB Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The District has not yet determined the impact of Statement No. 75 on its financial statements.

The contribution requirements of plan members and the District are established and may be amended by the District and the District’s bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. The District has not established an irrevocable trust to prefund its OPEB liability, and no prefunding of benefits has been made by the District.

Demsey, Filliger & Associates, Chatsworth, California, has prepared an actuarial valuation covering the District’s retiree health benefits and reports that, as of July 1, 2017, the District had an accrued liability of \$2,071,768 and, because the District had not established an irrevocable trust for prefunding any of its OPEB liability as of such date, its unfunded actuarial accrued liability was also \$2,071,768. As of the date of such report, the District had 41 retirees receiving OPEBs and 790 active employees who may become eligible to retire and receive OPEBs. According to such actuarial valuation, the District’s annual required contribution for fiscal year 2016-17 was \$517,565. For more information regarding the District’s annual required contribution and the District’s net OPEB obligation at June 30, 2017, see Note 12 to the District’s financial statements attached hereto as APPENDIX B “DISTRICT’S AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2017.”

Risk Management; Insurance

The District is exposed to various risks related to torts, theft, damage and destruction of assets, errors and omissions, personal injuries and natural disasters. The District participated in the Riverside Schools' Insurance Authority ("RSIA") public entity risk pool for property and liability insurance coverage in Fiscal Year 2017-18. Settled claims have not exceeded the insured coverage in any of the past three years, and there has not been a significant reduction in coverage from the prior year. During Fiscal Year 2015-16, the District made a payment of \$461,407 to RSIA for services received. During Fiscal Year 2016-17, the District made a payment of \$500,345 to RSIA for services received. During Fiscal Year 2017-18, the District made a payment of \$625,371 to RSIA for services received.

The District participated in the Protected Insurance Program for Schools (PIPS). The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate. Each participant pays its worker's compensation premium based on its individual rate. During Fiscal Year 2015-16, the District made a payment of \$1,332,643 to PIPS for services received. During Fiscal Year 2016-17, the District made a payment of \$1,471,558 to PIPS for services received. During Fiscal Year 2017-18, the District made a payment of \$1,462,149 to PIPS for services received.

During Fiscal Year 2017-18, the District made a payment of \$6,736,614 to Self Insurance Schools' of California III for insurance.

Additionally, the District purchases medical, dental, vision and life insurance from commercial insurance companies.

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the State Education Code (the "**Charter School Law**"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education.

A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are: (i) to provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system; (ii) to hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability; and (iii) to provide competition within the public school system to stimulate improvements in all public schools.

The District approved a petition to establish an independent charter school within the boundaries of the District: Santa Rosa Charter School, which opened in Fiscal Year 2005-06 ("**SRCS**"). Approximately 1,558 students were estimated to be enrolled in SRCS in Fiscal Year 2017-18 and approximately 1,574 students are estimated to be enrolled in SRCS in Fiscal Year 2018-19. Additionally, the District currently has limited information about SRCS's enrollment, and can provide no representation as to future enrollment or transfers of students from the District to SRCS.

The District can make no representations as to whether additional charter schools will be established within the boundaries of the District, the amount of any future transfers of students from the District to charters schools and the corresponding financing impact on the District.

Proposed Unification Involving Menifee Union School District

The District and the Perris Union High School District (“**PUHSD**”), in 2007, filed a joint petition regarding forming the Menifee Unified School District (the “Menifee Petition”) with the Riverside County Superintendent of Schools from the territory of the District and a portion of the PUHSD. In connection with the initial petition, the District entered into a written agreement with PUHSD, pursuant to which the District and PUHSD (collectively, the “**School Districts**”) set forth certain terms and conditions pursuant to which the School Districts agreed to pursue unification of the District in accordance with the provisions of the Education Code of the State. As contemplated, the unification of the District would result in (i) the transfer of certain high school facilities of PUHSD to the District, (ii) the assumption by the District of certain financial obligations, which may include financial obligations relating to existing school facilities in the unification area, as determined pursuant to the unification process, and (iii) the transfer to the District of the responsibility to provide high school level instruction to students within the District.

In May 2008, the Riverside County Committee on School District Organization determined that certain conditions for unification set forth in the Education Code were not met, and subsequently recommended to the State Board of Education that the Menifee Petition be denied. In August 2009, the School Districts requested that the Menifee Petition be held in abeyance and not acted upon by the State Board of Education until requested by the School Districts. Since that time, the School Districts continued to monitor criteria for meeting conditions for unification.

PUHSD has a proposed \$148 million general obligation bond measure on the ballot for the November 2018 election, a portion of the proceeds of such bonds would be used to build another high school to serve students from the District. Most recently, on July 17, 2018, the Boards of the School Districts held a special joint meeting as a study session regarding the proposed unification of the District. At the meeting, each Board gave direction to staff to prepare an internal analysis of status of satisfaction of the conditions for unification. The analysis will be presented to each Board once completed and each Board will then consider how to proceed. Based on an updated study prepared in March 2011, 3 of 9 conditions cited in Education Code Section 35753 were not met, including conditions relating to (i) racial balance, (ii) sound educational performance, and (iii) sound fiscal management. No assurance can be given as to whether each of the 9 conditions in Education Code Section 35753 can be met, and if the unification conditions can be met, whether the proposed unification proceedings might move forward and result in unification for the District.

EFFECT OF STATE BUDGET ON DISTRICT REVENUES

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

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

State Education Funding; Proposition 98. On November 8, 1988, State voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "**Accountability Act**"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "**K-14 school districts**") at a level equal to the greater of (a) the same percentage of State general fund revenues as the percentage appropriated to such districts in Fiscal Year 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The State Department of Finance indicates that Proposition 98's share of State general fund tax proceeds averages about 40%. As a percentage of new (additional) State general fund tax revenues, Proposition 98 gets approximately 60%. That is, for an increase in State general fund tax proceeds of \$100 million, Proposition 98 would get about \$60 million on the average.

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

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budget in a different way than is proposed in the Governor's Budget. In any event, it is possible that the Accountability Act could place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes. (See

EFFECT OF STATE BUDGET ON REVENUES” and “ – DISTRICT FINANCIAL INFORMATION” below.)

Local Control Funding Formula. The State Budget for Fiscal Year 2013-14 contained a new school funding allocation system (defined above as the “**Local Control Funding Formula**” or “**LCFF**” hereafter). State Assembly Bill 97 (Stats. 2013, Chapter 47) (“**AB 97**”) was enacted to establish a new system for funding State school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49). Under the former system, the Proposition 98 funding was allocated in such a way that approximately two-thirds of the revenues received by school districts was allocated based on complex historical formulas (known as “revenue limit” funds), and approximately one-third of the revenues received by school districts was derived through numerous “categorical programs,” such as for summer school textbooks, staff development, gifted and talented students, and counselors for middle and high schools. The Local Control Funding Formula replaces revenue limit and most categorical program funding. The State budget provided funding commencing in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in the categorical programs. The new system provides a more uniform base per-pupil rate for each of several grade levels. The base rates are augmented by several funding supplements for (1) students needing additional services, defined as English learners, students from lower income families, and foster youth; (2) school districts with high concentrations of English learners and lower income families; and (3) high school students. The new funding system requires school districts to develop local plans describing how the school district intends to educate its students. Full implementation of the LCFF is estimated to take approximately eight years.

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

As indicated above, commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education using the Local Control Funding Formula. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs.

The following table shows a breakdown of the District's ADA for purposes of the Local Control Funding Formula by grade span, total enrollment and the percentage of EL/LI student enrollment for Fiscal Year 2013-14 through Fiscal Year 2020-21.

TABLE A-6

**LOCAL CONTROL FUNDING FORMULA
ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE
Fiscal Years 2013-14 through 2020-21
Menifee Union School District**

| Fiscal Year | Average Daily Attendance ⁽¹⁾ | | | | Enrollment | | % of EL/LI Enrollment ⁽²⁾ |
|------------------------|---|----------|----------|------|------------|------------------|--------------------------------------|
| | TK-3 | 4-6 | 7-8 | 9-12 | Total ADA | Total Enrollment | |
| 2013-14 | 4,069.74 | 2,907.74 | 1,935.57 | 0 | 8,913.05 | 9,254 | 48.93% |
| 2014-15 ⁽³⁾ | 4,253.69 | 2,956.48 | 1,906.42 | 0 | 9,116.59 | 9,476 | 47.28 |
| 2015-16 ⁽³⁾ | 4,311.64 | 3,112.88 | 1,943.88 | 0 | 9,368.40 | 9,700 | 48.45 |
| 2016-17 ⁽³⁾ | 4,463.53 | 3,228.28 | 2,030.79 | 0 | 9,722.60 | 10,118 | 47.53 |
| 2017-18 ⁽⁴⁾ | 4,468.07 | 3,219.59 | 2,042.54 | 0 | 9,730.20 | 10,135 | 48.53 |
| 2018-19 ⁽⁵⁾ | 4,614.37 | 3,362.64 | 2,068.61 | 0 | 10,045.62 | 10,451 | 47.41 |
| 2019-20 ⁽⁵⁾ | 4,683.42 | 3,412.92 | 2,099.53 | 0 | 10,195.87 | 10,607 | 47.51 |
| 2020-21 ⁽⁵⁾ | 4,753.50 | 3,463.96 | 2,130.91 | 0 | 10,348.37 | 10,766 | 46.57 |

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

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

⁽³⁾ Actual.

⁽⁴⁾ Second Interim.

⁽⁵⁾ Projected based on 3% growth from Fiscal Year 2017-18 Second Interim.

Source: Menifee Union School District.

The following table sets forth the District's actual, funded and projected ADA for Fiscal Years 2014-15 through 2019-20, the District's projected target LCFF funding amounts at full implementation (which represents a combined total of base grant, K-3 class size reduction and supplemental grant funding, each calculated by grade span), projected annual LCFF allocation and gap funding for Fiscal Years 2014-15 through 2019-20. Funded ADA is the greater of current or prior year's ADA. Note the data assumes an unduplicated count of EL, FRPM and foster youth of 49.29% of enrollment for each of the projected fiscal years, based on current unduplicated counts which are projected to remain stable.

TABLE A-7

**LOCAL CONTROL FUNDING FORMULA PROJECTIONS
Fiscal Years 2014-15 through 2019-20 ⁽¹⁾
Menifee Union School District**

| Fiscal Year | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| ADA | 9,116.59 | 9,368.50 | 9,722.60 | 9,730.20 | 10,045.62 | 10,195.87 |
| COLA | 0.85% | 1.02% | 0.00% | 1.56% | 2.71% | 2.57% |
| Total LCFF Target in Millions | \$74,613,296 | \$77,574,644 | \$80,357,703 | \$81,816,233 | \$86,556,752 | \$90,116,993 |
| Total LCFF Revenue in Millions | \$60,277,608 | \$70,087,785 | \$76,920,601 | \$79,162,633 | \$86,556,752 | \$90,116,993 |

⁽¹⁾ Final, preliminary and projected figures for Fiscal Years 2014-15 through 2019-20. For purposes of calculating supplemental and concentration grants for Fiscal Year 2014-15, the percentage of unduplicated EL, FRPM, and foster youth enrollment is based on the two-year average of EL, FRPM, and foster youth enrollment in Fiscal Years 2013-14 and 2014-15. Beginning in Fiscal Year 2015-16, a school district's percentage of unduplicated EL, FRPM and foster youth students will be based on a rolling average of such school district's EL, FRPM, and foster youth enrollment for the then-current Fiscal Year and the two immediately preceding Fiscal Years. This table assumes 49.29% (not certified) and 52.08% (certified) of District enrollment is comprised of unduplicated EL, FRPM, and foster youth students for each of the Fiscal Years listed, based on October 2, 2017, certified CALPADS. ADA as of the second principal reporting period (P-2 ADA).

Source: Menifee Union School District.

Most public school districts in the State are dependent on revenues from the State for a large portion of their operating budgets. State school districts receive an average of about 55% of their operating revenues from various State sources. Prior to implementation in Fiscal Year 2013-14 of the Local Control Funding Formula, the primary source of funding for school districts was the revenue limit, which was a combination of State funds and local property taxes (see " – DISTRICT FINANCIAL INFORMATION – State Education Funding; Proposition 98"). Under the Local Control Funding Formula, State funds typically make up the majority of a school district's funding, as was the case under the previous revenue limit funding. In the past, school districts also received substantial funding from the State for various categorical programs. Commencing with Fiscal Year 2008-09, various mandates and restrictions on local school districts were removed, allowing flexibility to spend funding for 42 categorical programs as school districts wished. These flexibility provisions were extended for a number of years through legislation and the Local Control Funding Formula replaces revenue limit and most categorical program funding. Revenues received by the District from all State sources accounted for approximately 90.87% of total general fund revenues in Fiscal Year 2015-16, approximately 91.45% of total general fund revenues in Fiscal Year 2016-17 and are estimated to account for approximately 90.78% of total general fund revenues in Fiscal Year 2017-18.

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

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

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

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

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

Proposition 1A. Beginning in 1992-93, the State has satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, the Local Taxpayer, Public Safety and Transportation Protection Act, approved by the voters of the State on November 2, 2010 ("**Proposition 22**").

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

Education Provisions of the State Budget. Following the enactment of Proposition 25 on November 2, 2010, the Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15. Prior to enactment of Proposition 25, the final budget was required to be approved by a 2/3rds majority vote of each house of the Legislature and the June 15 deadline was routinely breached. For example, prior to enactment of Proposition 25, the State Budget approval occurred as late as September 23, 2008, for the Fiscal Year 2008-09 State Budget and October 8, 2010 for the Fiscal Year 2010-11 State Budget, the latest budget approval in State history. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and the nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The District cannot predict how State income or State education funding will vary over the entire term to maturity of the Bonds, and the District takes no responsibility for informing Owners of the Bonds as to any such annual fluctuations.

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

Information Regarding State Education Spending. Information about the State budgeting process, the State Budget and State spending for education is available at various State-maintained websites, including (i) the State's website <http://www.ebudget.ca.gov> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement), where recent official statements for State bonds are posted, (ii) the State Treasurer's Internet home page <http://www.treasurer.ca.gov> (this reference is for convenience of reference only and not considered to be

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

The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and neither the District nor the Underwriter take any responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites.

2018-19 State Budget. On June 27, 2018, the Governor signed into law the State budget for Fiscal Year 2018-19 (the "**2018-19 State Budget**"). The following information is drawn from the Department of Finance's summary of the 2018-19 State Budget.

To protect against potential future economic recessions, the 2018-19 State Budget fully funds the Budget Stabilization Account ("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 State 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 State 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 DISTRICT REVENUES AND APPROPRIATIONS – Proposition 22" herein.

For Fiscal Year 2018-19, the 2018-19 State 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:

- *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 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 State 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 onetime 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 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 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 one-time and \$24.8 million ongoing Proposition 98 funding to reflect increases in programmatic costs.
- *Kids Code After School Program* – \$15 million 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 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 Proposition 98 funding relief through the LCFF. The 201819 Budget also holds harmless the ADA used in calculating the LCFF for these counties for three years.
- *Fiscal Crisis and Management Assistance Team (FCMAT)* – \$972,000 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 State Budget, see the State Department of Finance website at www.dof.ca.gov. The information presented on such website is not incorporated herein by reference.

Future Budget Impacts. 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. The District cannot predict how State income or State education funding will vary over the term to maturity of the Bonds, and the District takes no responsibility for informing owners of the Bonds as to actions the State Legislature or Governor may take affecting a budget after its adoption. The Bonds, however, are not payable from such revenue. The Bonds will be payable solely from the proceeds of an ad valorem property tax which is required to be levied by the County in an amount sufficient for the payment thereof. 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 in future fiscal years may also have an adverse financial impact on the financial condition of the District. Information about the State budget and State spending for education is regularly available at various State-maintained websites. See "EFFECT OF STATE BUDGET ON DISTRICT REVENUES" – *Information Regarding State Education Spending*" above.

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

Limitation on School District Reserves. Included in the 2014-15 State Budget trailer bills was a provision which caps the amount of money school districts may set aside for economic crises if state-level reserves reach certain levels if the State electorate approved the Rainy Day Fund, which the electorate did approve. The District is in compliance with the requirement. On October 11, 2017, the Governor signed new legislation ("SB 751") amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be

triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with 2,500 or fewer ADA are exempt from the reserve cap. The District cannot predict if or when the reserve cap enacted by SB 751 will be triggered and what impact it may have on the District's reserves.

Litigation Regarding State Budgetary Provisions; Redevelopment Litigation. On July 18, 2011, the California Redevelopment Association, the League of California Cities, and the Cities of Union City and San Jose filed petition for a writ of mandate in *California Redevelopment Association et al. v. Ana Matosantos et al.* (“**Matosantos**”) with the Supreme Court of California alleging that ABx1 26 and ABx1 27 violate the State Constitution, as amended by Proposition 22 (the Local Taxpayer, Public Safety and Transportation Protection Act, approved by the voters of the State on November 2, 2010, defined above as “**Proposition 22**”). The petitioners alleged, among other things, that ABx1 26 and ABx1 27 seek to illegally divert tax increment revenue from redevelopment agencies by threatening such agencies with dissolution if payments are not made to support the State's obligation to fund education. The petition was accompanied by an application for a stay seeking to delay implementation of the provisions of ABx1 26 and ABx1 27 until the claims were adjudicated.

On December 29, 2011, the State Supreme Court issued its ruling in *Matosantos*. The Court upheld ABx1 26, the bill that dissolves all redevelopment agencies and directs the resolution of their activities. However, it found that ABx1 27, which allows redevelopment agencies to avoid elimination by making certain payments to offset state budget expenses, is unconstitutional. As a result, all redevelopment agencies were required to dissolve and transfer their assets and liabilities to “successor agencies” that will wind down the redevelopment agencies' affairs. Based on the decision, all redevelopment agencies were dissolved as of February 1, 2012.

Tax increment revenues that would have been directed to redevelopment agencies will be distributed to make “pass-through payments” to local agencies that they would have received under prior law and to successor agencies for retirement of the redevelopment agencies' debts and for limited administrative costs. The remaining revenues will be distributed as property tax revenues to cities, counties, school districts, community college districts and special districts. The District cannot predict whether, or to what extent, the elimination of redevelopment agencies will affect the pass-through payments or whether amounts received will be offset against other funds the State would otherwise have paid to the District. See “DISTRICT FINANCIAL INFORMATION – Other Funding Sources,” below.

The District entered into agreements with several redevelopment agencies formed pursuant the California Community Redevelopment Law (Health and Safety Code Sections 33000 *et seq.*) (generally, “**Redevelopment Agencies**”), pursuant to which the District has, in the past, received “pass-through” tax increment revenues (the “**Redevelopment Revenues**”). See “DISTRICT FINANCIAL INFORMATION – Other Funding Sources – *Redevelopment Revenues*” for information regarding amounts of Redevelopment Revenues received in Fiscal Years 2015-16 and 2016-17 and an estimate of the amount to be received in Fiscal Year 2017-18.

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

DISTRICT FINANCIAL INFORMATION

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

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all State school districts. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the Fiscal Year ending June 30, 2017, which are included as APPENDIX B.

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

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

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the Fiscal Year ending June 30, 2017, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the Menifee Union School District, 29775 Haun Road, Menifee, California 92586, telephone number (951) 672-1851.

The District's financial statements for the Fiscal Year ending June 30, 2017, which are included as APPENDIX B, have been audited by Vavrinek, Trine, Day & Co., LLP, Certified Public Accountants, Rancho Cucamonga, California.

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

The following table reflects information from the District's audited financial statements for Fiscal Year 2012-13 through Fiscal Year 2016-17.

TABLE A-8
AUDITED FINANCIAL STATEMENTS
Menifee Union School District
BALANCE SHEET – GENERAL FUND

| | June 30, 2013 | June 30, 2014 | June 30, 2015 | June 30, 2016 | June 30, 2017 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| ASSETS | | | | | |
| Deposits and investments | \$11,564,407 | \$15,160,541 | \$9,910,658 | \$10,636,906 | \$9,536,949 |
| Receivables ⁽¹⁾ | 13,612,321 | 16,829,861 | 2,924,303 | 2,599,245 | 1,726,034 |
| Due from other funds | 107,885 | 93,615 | 30,163 | 25,979 | 217,213 |
| Stores inventories | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Assets | \$25,284,613 | \$32,084,017 | \$12,865,124 | \$13,262,130 | \$11,480,196 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$1,182,131 | \$7,832,740 | \$1,789,102 | \$2,062,024 | \$1,986,297 |
| Due to other funds ⁽²⁾ | 14,009,269 | 14,023,527 | 7,678 | 1,341 | 0 |
| Unearned/Deferred revenue | <u>22,660</u> | <u>31,117</u> | <u>18,610</u> | <u>81,947</u> | <u>60,478</u> |
| Total Liabilities | \$15,214,060 | \$21,887,384 | \$1,815,390 | \$2,145,312 | \$2,046,775 |
| Fund Balances: | | | | | |
| Nonspendable | \$5,000 | \$5,000 | \$5,000 | \$5,000 | \$5,000 |
| Restricted | 1,954,186 | 3,451,824 | 2,248,611 | 2,044,111 | 1,336,416 |
| Assigned | 4,947,102 | 983,987 | 2,594,942 | 1,038,948 | 5,241,622 |
| Unassigned | <u>3,164,265</u> | <u>5,755,822</u> | <u>6,201,181</u> | <u>8,028,759</u> | <u>2,850,383</u> |
| Total Fund Balance | <u>\$10,070,553</u> | <u>\$10,196,633</u> | <u>\$11,049,734</u> | <u>\$11,116,818</u> | <u>\$9,433,421</u> |
| Total Liabilities and Fund Balances | \$25,284,613 | \$32,084,017 | \$12,865,124 | \$13,262,130 | \$11,480,196 |

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

⁽²⁾ Loans from other funds (Fund 25) increased to offset deferrals from the State. As the State deferrals decreased, the loans in Fiscal Year 2012-13 and Fiscal Year 2013-14 decreased.

Source: Menifee Union School District.

Comparative Financial Statements. The following table reflects the District's general fund revenues, expenditures and changes in fund balance for Fiscal Year 2012-13 through Fiscal Year 2016-17. The District's audited financial statements for Fiscal Year 2016-17 are included as APPENDIX D hereto.

TABLE A-9

**AUDITED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Years 2012-13 through 2016-17
Menifee Union School District**

| REVENUES | Audited 2012-13 ⁽¹⁾ | Audited 2013-14 ⁽¹⁾ | Audited 2014-15 ⁽¹⁾ | Audited 2015-16 ⁽¹⁾ | Audited 2016-17 ⁽¹⁾ |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| LCFF/Revenue Limit Sources | \$43,271,377 | \$52,951,275 | \$60,303,338 | \$70,121,883 | \$76,758,257 |
| Federal Sources | 2,115,325 | 2,801,055 | 3,129,347 | 2,931,918 | 3,283,935 |
| Other State Sources | 9,413,971 | 5,884,222 | 5,622,506 | 11,092,385 | 8,552,746 |
| Other Local Sources | <u>5,291,780</u> | <u>5,393,649</u> | <u>5,599,711</u> | <u>5,223,668</u> | <u>4,435,437</u> |
| Total Revenues | 60,092,453 | 67,030,201 | 74,654,902 | 89,369,854 | 93,030,375 |
| EXPENDITURES: | | | | | |
| Instruction | 41,683,114 | 44,072,389 | 48,775,104 | 56,578,016 | 59,935,846 |
| Instruction-Related Activities: | | | | | |
| Supervision of instruction | 1,658,847 | 2,557,431 | 2,809,309 | 4,058,016 | 5,002,059 |
| Instructional library, media and technology | 635,162 | 662,031 | 725,328 | 773,430 | 940,820 |
| School site administration | 3,804,358 | 3,981,914 | 4,394,823 | 5,022,405 | 5,675,496 |
| Pupil Services: | | | | | |
| Home-to-school transportation | 1,099,598 | 1,165,207 | 1,560,141 | 1,681,682 | 2,148,643 |
| Food Services | | 2,991 | | | |
| All other pupil services | 2,589,664 | 2,914,772 | 3,184,818 | 3,940,723 | 4,861,317 |
| General Administration: | | | | | |
| Data processing | 1,009,615 | 1,017,299 | 1,078,083 | 1,344,406 | 1,245,503 |
| All other general administration | 3,455,959 | 3,425,069 | 3,807,422 | 3,928,641 | 4,282,311 |
| Plant Services | 6,430,115 | 7,038,390 | 7,363,407 | 9,448,242 | 9,309,570 |
| Facility Acquisition and Construction | 25,494 | 38,232 | -- | 336,001 | 15,810 |
| Community Services | | 57,734 | 67,372 | 71,005 | 95,159 |
| Ancillary Services | 2,015 | 2,031 | -- | -- | -- |
| Capital Outlay | -- | -- | -- | -- | -- |
| Other Outgo | -- | 71,708 | 155,859 | 245,151 | 180,090 |
| Debt Service: | | | | | |
| Principal | -- | -- | -- | 1,730,647 | 1,178,647 |
| Interest and Other | -- | -- | -- | 219,519 | 136,517 |
| Total Expenditures | 62,393,941 | 67,007,198 | 73,921,666 | 89,378,131 | 95,007,788 |
| Excess (Deficiency) of Revenues Over Expenditures | (2,301,488) | 23,003 | 733,236 | (8,277) | (1,977,413) |
| Other Financing Sources (Uses): | | | | | |
| Transfers In | 199,818 | 210,374 | 130,000 | 95,853 | 299,027 |
| Transfers out | (95,487) | (107,297) | (10,135) | (20,492) | (5,011) |
| Other sources | -- | -- | -- | -- | -- |
| Net Financing Sources (Uses) | 104,331 | 103,077 | 119,865 | 75,361 | 294,016 |
| NET CHANGE IN FUND BALANCES | (2,197,157) | (126,080) | 853,101 | 67,084 | (1,683,397) |
| Fund Balance, Beginning | <u>12,267,710</u> | <u>10,070,553</u> | <u>10,196,633</u> | <u>11,049,734</u> | <u>11,116,818</u> |
| Fund Balance, Ending | <u>\$10,070,553</u> | <u>\$10,196,633</u> | <u>\$11,049,734</u> | <u>\$11,116,818</u> | <u>\$9,433,421</u> |

⁽¹⁾ For a comparison of budgeted and audited actual results for Fiscal Years 2012-13 through 2016-17 and estimated actuals for Fiscal Year 2017-18 in object-oriented format, please see "General Fund Budget" herein.

Source: Menifee Union School District.

Budget Process and County Review

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

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

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

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

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

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

The District has never had an adopted budget disapproved by the Riverside County Office of Education, and has never received a “negative” certification of an interim financial report pursuant to AB 1200. The District self-certified “qualified,” and the Riverside County Office of Education concurred, for interim reports for the second interim report in Fiscal Year 2009-10 and Fiscal Year 2011-12 and for the first interim report for Fiscal Year 2012-13. Since the second interim report in Fiscal Year 2012-13, including the first interim report for Fiscal Year 2016-17, the District was certified “positive.”

The District has projected positive ending fund balances in Fiscal Years 2018-19 through 2020-21 in its Fiscal Year 2018-19 budget. As indicated above, on or before August 15, 2018, the county superintendent will approve or disapprove the adopted budget for the District. In the past, the Riverside County Office of Education’s review focused on several key assumptions, including estimated District ADA, estimated LCFF gap funding, unduplicated pupil percentages, and employee negotiations regarding salary and benefits, as well as the estimated cash balance as of the end of the budget year, in relation to the estimated July expenditures of the subsequent budget year and the long-term commitments of the District (excluding general obligation bonds, compensated absences and other post-employment benefits for retirees).

Full implementation of the LCFF has occurred over a period of several years, during which an annual transition adjustment was calculated for each district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. Full implementation of the LCFF is expected to occur in 2018-19. For a complete discussion of the LCFF implementation plan, see “EFFECT OF STATE BUDGET ON REVENUES – Local Control Funding Formula” herein. However, in the absence of either the full implementation of the LCFF as currently projected by the State or a reduction of general fund expenditures, there can be no assurances that the District will have positive ending fund balances in future years.

General Fund Budget

The District’s general fund budgets (audited or budgeted, as applicable) for the Fiscal Years ending June 30, 2016, through June 30, 2019, are set forth below:

TABLE A-10

GENERAL FUND BUDGETING

**Fiscal Years 2015-16 through 2016-17 Budgets and Audited Actuals,
Fiscal Year 2017-18 Adopted Budget Estimated Actuals and Fiscal Year 2018-19 Budget**
Menifee Union School District

| | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | |
|--|-----------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|----------------------------------|-----------------------|-----------------------|
| | Budget ⁽¹⁾ | Audited Actual ⁽²⁾ | Budget ⁽¹⁾ | Audited Actual ⁽²⁾ | Budget ⁽¹⁾ | Estimated Actuals ⁽²⁾ | Budget ⁽³⁾ | Budget ⁽³⁾ |
| REVENUES | | | | | | | | |
| LCFF/Revenue Limit Sources ⁽⁴⁾ | \$69,770,995 | \$70,121,883 | \$75,170,333 | \$76,758,257 | \$81,131,416 | \$79,162,633 | \$86,556,752 | \$86,556,752 |
| Federal Sources | 2,975,933 | 2,931,918 | 3,161,605 | 3,283,935 | 3,266,358 | 3,932,682 | 3,430,223 | 3,430,223 |
| Other State Sources | 2,722,804 | 11,092,385 | 8,336,391 | 8,552,746 | 6,777,221 | 8,573,941 | 10,130,808 | 10,130,808 |
| Other Local Sources | 4,391,187 | 5,223,668 | 4,162,754 | 4,435,437 | 4,723,416 | 4,983,320 | 4,975,441 | 4,975,441 |
| TOTAL REVENUES | \$79,860,939 | \$89,369,854 | \$90,831,083 | \$93,030,375 | \$95,898,411 | \$96,652,576 | \$105,093,224 | \$105,093,224 |
| EXPENDITURES | | | | | | | | |
| Current | | | | | | | | |
| Certificated Salaries | 39,784,807 | 41,964,220 | 44,782,550 | 47,033,925 | 47,471,452 | 46,542,944 | 47,042,997 | 47,042,997 |
| Classified Salaries | 11,529,938 | 12,244,847 | 12,757,770 | 12,975,120 | 13,358,742 | 13,236,720 | 13,704,334 | 13,704,334 |
| Employee Benefits | 14,834,524 | 17,232,546 | 20,381,622 | 20,144,684 | 22,887,357 | 22,466,600 | 24,445,357 | 24,445,357 |
| Books & Supplies | 3,069,277 | 5,604,832 | 2,775,425 | 3,072,189 | 3,526,140 | 6,030,191 | 4,406,907 | 4,406,907 |
| Services & Operating Expenditures | 5,717,889 | 9,825,624 | 10,284,388 | 10,229,590 | 9,175,454 | 9,889,997 | 10,542,644 | 10,542,644 |
| Capital Outlay | 118,000 | 407,498 | 292,458 | 132,290 | 87,000 | 28,073 | 112,330 | 112,330 |
| Other Outgo | 2,070,166 | 1,730,647 | 1,435,164 | 241,343 | 1,498,294 | 1,576,370 | 1,694,164 | 1,694,164 |
| Indirect/Direct Support Costs | (138,907) | 367,917 | (157,118) | 1,178,647 | (194,098) | (194,098) | (201,705) | (201,705) |
| TOTAL EXPENDITURES | \$76,985,694 | \$89,378,131 | \$92,552,259 | \$95,007,788 | \$97,810,341 | \$99,586,797 | \$101,747,028 | \$101,747,028 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 2,875,245 | (8,277) | (1,721,176) | (1,977,413) | (1,911,930) | (2,934,221) | 3,346,196 | 3,346,196 |
| OTHER FINANCING SOURCES/(USES) | | | | | | | | |
| Transfers In | -- | 95,853 | 66,000 | 299,027 | 66,000 | 52,500 | 45,000 | 45,000 |
| Transfers Out | (24,784) | (20,492) | (28,432) | (5,011) | 353,000 | 355,000 | 355,000 | 355,000 |
| Contributions & Other Sources | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OTHER FINANCING SOURCES/(USES) | (24,784) | 75,361 | 37,568 | 294,016 | (287,000) | (302,500) | (310,000) | (310,000) |
| NET INCREASE (DECREASE) IN FUND BALANCE | 2,850,461 | 67,084 | (1,683,608) | (1,683,397) | (2,198,930) | (3,236,721) | 3,036,196 | 3,036,196 |
| Fund Balance - Beginning | 7,530,383 | 11,049,734 | 11,116,818 | 11,116,818 | 8,096,821 | 9,433,423 | 6,196,702 | 6,196,702 |
| Audit Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjusted Beginning Balance | 7,530,383 | 11,116,818 | 11,116,818 | 11,116,818 | 8,096,821 | 9,433,423 | 6,196,702 | 6,196,702 |
| Fund Balance - Ending | \$10,380,844 | \$11,116,818 | \$9,433,210 | \$9,433,421 | \$5,897,891 | \$6,196,702 | \$9,232,898 | \$9,232,898 |

⁽¹⁾ From the Adopted Budgets of the District for Fiscal Years 2014-15 through 2017-18.

⁽²⁾ From the Annual Financial Reports for Fiscal Years ending June 30, 2015, 2016 and 2017.

⁽³⁾ From the District's Fiscal Year 2017-18 estimated actuals. Since the impact of the LCFF on the District's State revenue sources was unknown at the time of preparation of the District's 2013-14 Adopted Budget, the 2013-14 Adopted Budget reflects expected State revenue limit funding prior to the implementation of the LCFF as the nearest available approximation of expected funding. Totals for Fiscal Year 2013-14 assume full LCFF funding. See " - Current State Education Funding - Local Control Funding Formula" herein.

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

Revenue Sources

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

LCFF Sources. In Fiscal Year 2013-14, the State implemented a new funding system, referred to as "Local Control Funding Formula." Funding of the District's local control funding is provided by a mix of local property taxes and State aid. Local Control Funding Formula revenues are expected to comprise approximately 81.9% of the District's general fund revenues in 2018-19. The District anticipates that it will receive approximately \$7.9 million in base grant funding and \$7.4 million in supplemental grant funding. The District also anticipates receiving additional moneys for transportation, the K-3 GSA grant and the 9-12 augmentation. See "EFFECT OF STATE BUDGET ON REVENUES – 2018-19 State Budget" and "– State Education Funding; Proposition 98" above.

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

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the Every Student Succeeds Act enacted in 2015, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. The federal revenues, most of which are restricted, comprised approximately 4.06% of such revenues in 2018-19.

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

Some of the Other State Revenues are restricted to specific types of program uses, such as special education. These Other State Revenues are primarily restricted revenues funding items such as the Special Education Master Plan, California Clean Energy Jobs Act and the State, on behalf contributions to STRS. Other State Revenues, including State Lottery Revenue, comprised approximately 7.07% of general fund revenues in 2016-17, 8.52% of general fund revenues in 2017-18 and are budgeted to equal approximately 9.64% of such revenues in 2018-19. In prior fiscal years, some of the foregoing revenues were included in the financial statements set forth in Tables A-9 and A-10 in the row captioned "LCFF/Revenue Limit Sources."

Other State revenues include the California State Lottery (the “**Lottery**”), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised a nominal amount (less than 2%) of general fund revenues in 2016-17 and 2017-18 and are budgeted to equal approximately the same amount of such revenues in 2018-19.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as leases and rentals, interest earnings, transportation fees, interagency services, Special Education Local Plan Area (“**SELPA**”) apportionments and other local sources. Other local revenues comprised approximately 5.05% of general fund revenues in 2016-17, 4.84% of general fund revenues in 2017-18 and are budgeted to equal approximately 4.73% of general fund revenues in 2018-19.

Other Funding Sources

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

Developer Fees. The District levies fees on developers to meet pupil housing needs. Expenditures are restricted to purposes specified in State statutes or to the items specified in agreements with the applicable developer. Annual collections vary from year to year and have ranged from nominal amounts to approximately \$3.6 million during the last 10 years.

Redevelopment Revenues. The District has entered into agreements with redevelopment agencies formed pursuant the California Community Redevelopment Law (Health and Safety Code Sections 33000 *et seq.*) (defined above generally as “**Redevelopment Agencies**”), pursuant to which the District has, in the past, received “pass-through” tax increment revenues (defined above as “**Redevelopment Revenues**”). The District has estimated the receipt of \$385,959 in Redevelopment Revenues with respect to agreements entered into in the past with Murrieta, Perris, Moreno Valley, March Joint Powers Authority and Riverside County redevelopment agencies in Fiscal Year 2018-19 and \$159,923 received as community redevelopment funds reported as taxes for purposes of LCFF funding. The District has projected the receipt of \$300,000 in Redevelopment Revenues with respect to agreements entered into in the past with Murrieta, Perris, Moreno Valley, March Joint Powers Authority and Riverside County redevelopment agencies in Fiscal Year 2016-17 and \$149,588 received as community redevelopment funds reported as taxes for purposes of LCFF funding.

The District, however, can make no representations that Redevelopment Revenues will continue to be received by the District in amounts consistent with prior years, or as currently projected, particularly in light of the recently enacted legislation eliminating redevelopment agencies. See “EFFECT OF STATE BUDGET ON REVENUES – *Litigation Regarding State Budgetary Provisions; Redevelopment Litigation*, “DISTRICT FINANCIAL INFORMATION,” and “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22” in the Official Statement. Further, the District can make no representations about the potential impact of litigation regarding such legislation. The Bonds, however, are not payable from such revenue. The Bonds are payable solely from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment thereof. See “INTRODUCTION – Security and

Sources of Payment for the Bonds” and “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

Dissolution of Redevelopment Agencies. On December 29, 2011, the State Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos* (defined above as “*Matosantos*”), finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all Redevelopment Agencies in the State ceased to exist as a matter of law on February 1, 2012. The Court in *Matosantos* also found that ABx1 27, a companion bill to ABx1 26, violated the State Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A” and “– Proposition 22” herein. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide.

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

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

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

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

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

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

District Debt Structure

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

Certificates of Participation. In July 2012, the District caused to be executed and delivered Refunding Certificates of Participation in an aggregate principal amount of \$5,139,197 (the “**2012 Certificates**”), the net proceeds of which were used to prepay on an advance basis the District’s 2004 lease obligation of the District and the related certificates of participation. As of June 30, 2018, the principal components outstanding was \$3,143,007.

In December 2014, the District issued \$25,130,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation (the “**QZAB Certificates**”). Owners of the QZAB Certificates receive a Federal tax credit in lieu of charging the District interest on the QZAB Certificates. As of June 30, 2018, the principal components outstanding was \$20,973,059.

Capital Leases. The District periodically leases various equipment items under lease agreements (the “**Capital Leases**”) that provide for title to pass to the District upon execution of a bargain purchase option. Currently, there are no lease obligations.

General Obligation Bonds.

The District received authorization at an election held on November 5, 2002, by more than the required 55% of the votes cast by eligible voters in the District, to authorize the issuance of \$14,500,000 maximum principal amount of general obligation bonds of the District (the “**2002 Authorization**”). On June 4, 2003, the District, through the County, issued its General Obligation Bonds, 2002 Election, Series A in the aggregate principal amount of \$9,429,202.50 (accreting to \$9,930,000) (the “**2002 Series A Bonds**”). On June 15, 2006, the District, through the County, issued its General Obligation Bonds, 2002 Election, Series B in the aggregate principal amount of \$5,069,720 (accreting to \$5,840,000) (the “**2002 Series B Bonds**”). On February 14, 2013, the District issued its 2013 General Obligation Refunding Bonds in the aggregate principal amount of \$8,835,000 (the “**2013 Series A Refunding Bonds**”) to refund a portion of the 2002 Series A Bonds. On August 14, 2014, the District issued its 2014 General Obligation Refunding Bonds in the aggregate principal amount of \$4,230,000 (the “**2014 Series B Refunding Bonds**”) to refund a portion of the 2002 Series B Bonds. \$1,079.50 of the 2002 Authorization remains unissued.

The District received authorization at an election held on February 5, 2008, by at least 55% of the votes cast by eligible voters in the District, to authorize the issuance of \$31,460,000 maximum principal amount of general obligation bonds of the District (the “**2008 Authorization**”). On August 20, 2008, the District, through the County, issued its 2008 Series A Bonds in the aggregate principal amount of \$15,730,000 (the “**2008 Series A Bonds**”). On March 18, 2009, the District, through the County, issued its General Obligation Bonds, 2008 Election, Series B (Bank Qualified) in the aggregate principal amount of \$11,897,935 (the “**2008 Series B Bonds**”) and its General Obligation Bonds, 2008 Election, Series C (Bank Qualified) as capital appreciation bonds in the aggregate principal amount of \$3,832,065 (\$27,000,000 maturity value) (the “**2008 Series C Bonds**”). On August 3, 2016, the District issued its 2016 General Obligation Refunding Bonds in the aggregate principal amount of \$25,010,000 (the “**2016 Refunding Bonds**”) to refund a portion of the 2008 Series A Bonds and a portion of the 2008 Series B Bonds. None of the 2008 Authorization remains unissued.

The District received authorization at an election held on November 8, 2016, by at least 55% of the votes cast by eligible voters in the District, to authorize the issuance of \$135,000,000 maximum principal amount of general obligation bonds of the District (the “**2016 Authorization**”). The District issued its General Obligation Bonds, 2017 Election, Series A in the aggregate principal amount of \$23,395,000. The District proposes to issue its General Obligation Bonds, 2016 Election, Series B in the aggregate principal amount indicated on the cover of this Official Statement (the “**Bonds**”) The Bonds are the second series of bonds issued pursuant to the 2016 Authorization. See “**AGGREGATE DEBT SERVICE SCHEDULE**” for the annual debt service requirements on all of the District’s outstanding general obligation bonds (assuming no optional redemptions).

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CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIII A of the State Constitution

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

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

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

Legislation Implementing Article XIII A

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

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

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

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

Inflationary Adjustment of Assessed Valuation

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

Taxation of State-Assessed Utility Property

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

Changes in the State electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its

utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as aid under the State's school financing formula.

Article XIII B of the State Constitution

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

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

Proposition 98

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

Proposition 111

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

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

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

the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor (the "third test"). If the third test is used in any year, the difference between the third test and the second test will become a "credit" to school districts which will be paid in future years when State general fund revenue growth exceeds personal income growth.

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

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

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

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

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

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

Proposition 39

On November 7, 2000, State voters approved an amendment (commonly known as “**Proposition 39**”) to the State Constitution. Upon passage of Proposition 39, implementing legislation entitled “**Strict Accountability in Local School Construction Bonds Act of 2000**” (the “**Strict Accountability in Local School Construction Bonds Act**”) became operative. Proposition 39 (1) allows school facilities’ bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments of Proposition 39 may be changed only with another state-wide vote of the people. The statutory provisions of the **Strict Accountability in Local School Construction Bonds Act**, as amended, may be changed by a majority vote of both houses of the Legislature and approved by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition and implementing legislation are K-12 school districts, including the District, community college districts and county offices of education. As noted above, the State Constitution previously limited property taxes to 1% of the value of property. Prior to Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

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

Jarvis v. Connell

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

notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

Proposition 1A

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

Proposition 22

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

Proposition 26

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

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

Proposition 30

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

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

Proposition 55

The California Extension of the Proposition 30 Income Tax Increase Initiative, also known as Proposition 55 (“**Proposition 55**”), was approved by voters on November 8, 2016. The Proposition 55 summary is as follows:

- Extends by twelve years the temporary personal income tax increases enacted in 2012 on earnings over \$250,000 for single filers (over \$500,000 for joint filers; over \$340,000 for heads of household);
- Allocates these tax revenues 89% to K-12 schools and 11% to California Community Colleges;
- Allocates up to \$2 billion per year in certain years for healthcare programs; and
- Bars use of education revenues for administrative costs, but provides local school boards discretion to decide, in open meetings and subject to annual audit, how revenues are to be spent.

The District’s budget projections for future fiscal years will be adjusted to reflect approval of Proposition 55 and the resulting impact on District revenues.

Proposition 62; Statutory Limitations

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

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

State Cash Management Legislation

Since 2002, the State engaged in the practice of deferring certain apportionments to school districts in order to manage the State’s cash flow. This practice included deferring certain apportionments from one fiscal year to the next. These “cross-year” deferrals were codified. In recent year, the State has paid down the deferrals. However, in the 2017-18 Proposed Budget, the Governor proposed deferring \$859.1 million in LCFE expenditures from June 2017, to July 2017, to maintain 2016-17 programmatic expenditure levels in light of a reduction to Proposition 98 funding for 2016-17 compared to the 2016-17 Budget. The 2017-18 Proposed Budget proposed to immediately repay the deferral in 2017-18. The

District cannot predict whether the State will engage in the practice of deferring certain apportionments to Districts in the future.

Applications of Constitutional and Statutory Provisions

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

Future Initiatives and Legislation

Articles XIII A, XIII B, XIII C, XIII D and Propositions 26, 30, 39 (approved in 2000 authorizing a 55% approval of school bonds), 98, 111 and 218 were each adopted pursuant to a measure qualified for the ballot pursuant to the State’s constitutional initiative process. Propositions 1A and 39 (approved in 2012 relating to a State grant program for energy efficiency projects) were each legislatively referred constitutional amendments which were approved by the electorate and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by State voters or legislation enacted by the State Legislature. For example, during 2013, a proposal (2013-14 Assembly Bill 182) was introduced in the State Legislature and later enacted to place limitations on the ability of school districts to issue capital appreciation bonds or convertible capital appreciation bonds commencing on and after January 1, 2014. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, any city whose students are served by the District, the District or local districts to increase revenues or to increase appropriations.

APPENDIX B

**DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR FISCAL YEAR ENDING JUNE 30, 2017**

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information is included only for the purpose of supplying general information regarding the County of Riverside, the City of Menifee, and their economic base. The Bonds are not obligations of the County of Riverside and do not represent a lien or charge against any funds or property of the County of Riverside or of any city. The following information is provided only to give prospective investors an overview of the general economic condition of the County of Riverside and the State of California.

General

Menifee Union School District (the “**District**”) is located in the City of Menifee, Riverside County, California (the “**County**”). Set forth below is certain demographic information about the City of Menifee and Riverside County that could affect the economic environment within which the District operates.

City of Menifee

The City of Menifee (the “**City**”) was incorporated on October 1, 2008 and includes the formerly unincorporated communities of Menifee, Sun City, Quail Valley and portions of Romoland. The City is located in the south central portion of the County, north of Murrieta, west of Hemet, east of Canyon Lake and southeast of Perris. The City spans nearly 50 square miles and has a population estimated at 91,902. Due to the recent incorporation of the City, historical demographic information for the City is not yet available.

History and Location of Riverside County

Riverside County, which encompasses 7,177 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of the State of California (the “**State**”), Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the south by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 24 incorporated cities in Riverside County.

Riverside County’s varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains and the deserts. The western valley, the San Jacinto Mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

Population

The County has experienced a long period of growth and development. It is currently the eleventh most populous county in the United States, and fourth largest in the State. Total population for the County is expected to be over three million by the year 2030. The County’s population as of January 1, 2018, is estimated to be 2,415,955 people. The estimated population of the County is

approximately 56% greater than the 2000 population, representing an average annual compound growth rate of 2.51%.

Since incorporation in 2008, the City's population has grown 21.4%, for an annual compound growth rate of approximately 1.96%.

A summary of the population estimates of the City, County and State for the past 10 years is shown in the following table.

POPULATION ESTIMATES
City of Menifee, Riverside County and the State of California
2009-2018

| <u>Year</u> ⁽²⁾ | <u>City of Menifee</u> ⁽¹⁾ | | <u>Riverside County</u> | | <u>State of California</u> | |
|----------------------------|---------------------------------------|----------------------|-------------------------|----------------------|----------------------------|----------------------|
| | <u>Population</u> | <u>Annual Change</u> | <u>Population</u> | <u>Annual Change</u> | <u>Population</u> | <u>Annual Change</u> |
| 2009 | 75,707 | — | 2,140,626 | — | 36,966,713 | — |
| 2010 | 77,902 | 2.9 | 2,179,692 | 1.8 | 37,223,900 | 0.7 |
| 2011 | 78,836 | 1.2 | 2,212,675 | 1.5 | 37,529,913 | 0.8 |
| 2012 | 80,793 | 2.5 | 2,240,166 | 1.2 | 37,874,977 | 0.9 |
| 2013 | 82,476 | 2.1 | 2,265,789 | 1.1 | 38,234,391 | 0.9 |
| 2014 | 83,968 | 1.8 | 2,291,262 | 1.1 | 38,568,628 | 0.9 |
| 2015 | 85,801 | 2.2 | 2,317,895 | 1.2 | 38,912,464 | 0.9 |
| 2016 | 87,608 | 2.1 | 2,346,717 | 1.2 | 39,179,627 | 0.7 |
| 2017 | 89,552 | 2.2 | 2,382,640 | 1.5 | 39,500,973 | 0.8 |
| 2018 | 91,902 | 2.6 | 2,415,955 | 1.4 | 39,809,693 | 0.8 |

⁽¹⁾ City of Menifee incorporated October 1, 2008.

⁽²⁾ As of January 1.

Source: California Department of Finance for January 1 (2010 DRU Benchmark).

Personal Income

The following tables show the per capita personal income for the County, the State and the United States from 2008 through 2017.

PER CAPITA PERSONAL INCOME ⁽¹⁾
County of Riverside, State of California and United States
Calendar Years 2008-2017

| <u>Year</u> | <u>County of Riverside</u> | <u>California</u> | <u>United States</u> |
|-------------|----------------------------|-------------------|----------------------|
| 2008 | \$30,894 | \$44,162 | \$41,082 |
| 2009 | 29,748 | 42,224 | 39,376 |
| 2010 | 29,222 | 43,323 | 40,278 |
| 2011 | 29,927 | 45,854 | 42,463 |
| 2012 | 31,742 | 48,359 | 44,283 |
| 2013 | 33,278 | 48,555 | 44,489 |
| 2014 | 34,044 | 51,317 | 46,486 |
| 2015 | 35,883 | 54,664 | 48,429 |
| 2016 | 36,782 | 56,308 | 49,204 |
| 2017* | * | 58,272 | 50,392 |

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

*2017 annual figures scheduled for release in November 2018.

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

Employment

The following table presents the annual average labor force for the City, County and State from 2012 through 2017.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City Menifee, County of Riverside and State of California Calendar Years 2012-2017

| <u>Year</u> | <u>Area</u> | <u>Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Unemployment Rate</u> |
|-------------|---------------------|--------------------|-------------------|---------------------|--------------------------|
| 2012 | City of Menifee | 34,400 | 29,800 | 4,600 | 13.5% |
| | Riverside County | 988,600 | 873,600 | 115,100 | 11.6 |
| | State of California | 18,551,400 | 16,627,800 | 1,923,600 | 10.4 |
| 2013 | City of Menifee | 35,200 | 31,100 | 4,000 | 11.5% |
| | Riverside County | 998,800 | 899,900 | 98,900 | 9.9 |
| | State of California | 18,670,100 | 17,001,000 | 1,669,000 | 8.9 |
| 2014 | City of Menifee | 35,900 | 32,400 | 3,400 | 9.5% |
| | Riverside County | 1,017,000 | 933,800 | 83,200 | 8.2 |
| | State of California | 18,827,900 | 17,418,000 | 1,409,900 | 7.5 |
| 2015 | City of Menifee | 36,400 | 33,500 | 2,900 | 7.9% |
| | Riverside County | 1,035,200 | 965,500 | 69,600 | 6.7 |
| | State of California | 18,981,800 | 17,798,600 | 1,183,200 | 6.2 |
| 2016 | City of Menifee | 37,300 | 34,700 | 2,600 | 7.1% |
| | Riverside County | 1,051,800 | 988,000 | 63,800 | 6.1 |
| | State of California | 19,102,700 | 18,065,000 | 1,037,700 | 5.4 |
| 2017 | City of Menifee | 38,200 | 36,600 | 1,600 | 4.1% |
| | 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 |

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2017 Benchmark.

Industry

The following figures represent industry employment estimates in the County from 2011 through 2017.

INDUSTRY EMPLOYMENT & LABOR FORCE County of Riverside Calendar Years 2011-2017⁽¹⁾

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Farm | 12,400 | 12,500 | 12,100 | 11,900 | 12,600 | 12,800 | 12,600 |
| Mining and Logging | 400 | 400 | 300 | 300 | 300 | 300 | 400 |
| Construction | 34,100 | 35,900 | 42,600 | 47,500 | 52,900 | 58,600 | 62,300 |
| Manufacturing | 38,600 | 39,400 | 39,000 | 40,100 | 41,300 | 42,700 | 42,800 |
| Wholesale Trade | 19,700 | 20,700 | 22,400 | 23,100 | 23,300 | 23,800 | 23,900 |
| Retail Trade | 81,600 | 81,400 | 82,400 | 85,500 | 88,700 | 91,600 | 92,800 |
| Transportation, Warehousing & Utilities | 20,200 | 21,000 | 24,900 | 27,800 | 34,100 | 37,400 | 42,100 |
| Information | 7,700 | 6,400 | 6,300 | 6,300 | 6,400 | 6,300 | 6,100 |
| Financial Activities | 18,600 | 19,300 | 20,000 | 20,500 | 20,900 | 21,400 | 21,900 |
| Professional & Business Services | 52,300 | 54,000 | 57,600 | 60,900 | 62,600 | 65,200 | 67,000 |
| Education & Health Services | 70,300 | 78,900 | 85,500 | 89,500 | 95,200 | 100,200 | 106,200 |
| Leisure & Hospitality | 68,900 | 72,300 | 75,000 | 80,500 | 83,400 | 88,200 | 90,800 |
| Other Services | 18,800 | 19,200 | 20,300 | 21,6700 | 21,700 | 22,300 | 22,800 |
| Government | <u>114,200</u> | <u>112,100</u> | <u>111,200</u> | <u>112,700</u> | <u>114,500</u> | <u>117,600</u> | <u>125,400</u> |
| Total (all industries) | 561,800 | 573,600 | 599,500 | 628,100 | 657,900 | 688,400 | 717,000 |

⁽¹⁾ Annual averages, unless otherwise specified.

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

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

Largest Employers

The following tables show the largest employers located in the County and the City as of Fiscal Year ending June 30, 2017.

LARGEST EMPLOYERS County of Riverside 2017

| <u>Rank</u> | <u>Name of Business</u> | <u>Type of Business</u> | <u>Employees</u> | <u>% of County Employment</u> |
|-------------|---|-------------------------|------------------|-------------------------------|
| 1. | County of Riverside | County Government | 22,538 | 2.27% |
| 2. | University of California, Riverside | University | 8,686 | 0.87 |
| 3. | March Air Reserve Base | Military Reserve Base | 8,500 | 0.86 |
| 4. | Amazon | Electronic Commerce | 7,500 | 0.75 |
| 5. | Kaiser Permanente Riverside Med. Center | Medical Center | 5,739 | 0.58 |
| 6. | Corona-Norco Unified School District | School District | 5,399 | 0.54 |
| 7. | Riverside Unified School District | School District | 4,236 | 0.43 |
| 8. | Pachanga Resort Casino | Resort | 4,000 | 0.40 |
| 9. | Riverside University Health Systems | Medical Center | 3,876 | 0.39 |
| 10. | Eisenhower Medical Center | Medical Center | 3,665 | 0.37 |

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

LARGEST EMPLOYERS City of Menifee 2017

| <u>Rank</u> | <u>Name of Business</u> | <u>Type of Business</u> | <u>Employees</u> |
|-------------|----------------------------------|-------------------------------------|------------------|
| 1. | Menifee Union School District | School District | 2,400 |
| 2. | Mt. San Jacinto College District | Education | 2,100 |
| 3. | Romoland Elementary School Dist. | School District | 411 |
| 4. | Menifee Valley Medical Center | Hospital | 360 |
| 5. | Southern California Edison | Utilities | 345 |
| 6. | Sodexo | Food Services/Facilities Management | 315 |
| 7. | Target Corporation | Retail | 280 |
| 8. | CAR Enterprises | Fuel/Convenience Store | 260 |
| 9. | Perris Union School District | School District | 220 |
| 10. | United Parcel Service | Package Delivery Service | 211 |

Source: City of Menifee Comprehensive Annual Financial Report (CAFR), fiscal year ended June 30, 2017.

Taxable Sales

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

**TAXABLE SALES
County of Riverside
(Dollars in Thousands)
Calendar Years 2009-2016**

| <u>Year</u> | <u>Retail Permits</u> | <u>Retail Taxable Transactions</u> | <u>Stores Taxable Transactions</u> | <u>Total Permits</u> | <u>Total Taxable Transactions</u> | <u>Outlets</u> |
|-------------|-----------------------|------------------------------------|------------------------------------|----------------------|-----------------------------------|----------------|
| 2009 | 29,829 | 16,057,488 | | 42,765 | 22,227,877 | |
| 2010 | 32,534 | 16,919,500 | | 45,688 | 23,152,780 | |
| 2011 | 33,398 | 18,576,285 | | 46,886 | 25,641,497 | |
| 2012 | 34,683 | 20,016,668 | | 48,316 | 28,096,009 | |
| 2013 | 33,391 | 21,306,774 | | 46,805 | 30,065,467 | |
| 2014 | 34,910 | 22,646,343 | | 48,453 | 32,035,687 | |
| 2015 | 18,662 | 23,281,724 | | 56,846 | 32,910,910 | |
| 2016 | 38,445 | 24,022,136 | | 57,771 | 34,231,144 | |

Note: As of 2015, the California Board of Equalization changed the terms "Retail Permits" and "Total Permits" to "Number of Outlets."

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

**TAXABLE SALES
City of Menifee
(Dollars in Thousands)
Calendar Years 2009-2016**

| <u>Year</u> | <u>Retail Permits</u> | <u>Retail Taxable Transactions</u> | <u>Stores Taxable Transactions</u> | <u>Total Permits</u> | <u>Total Taxable Transactions</u> | <u>Outlets</u> |
|-------------|-----------------------|------------------------------------|------------------------------------|----------------------|-----------------------------------|----------------|
| 2009 | 523 | 299,505 | | 719 | 343,867 | |
| 2010 | 548 | 330,547 | | 749 | 370,469 | |
| 2011 | 606 | 379,704 | | 840 | 421,545 | |
| 2012 | 673 | 410,227 | | 918 | 449,121 | |
| 2013 | 673 | 429,966 | | 919 | 474,050 | |
| 2014 | 761 | 461,310 | | 987 | 516,679 | |
| 2015 | 823 | 518,584 | | 1,251 | 580,358 | |
| 2016 | 872 | 533,479 | | 1,342 | 628,923 | |

Note: As of 2015, the California Board of Equalization changed the terms "Retail Permits" and "Total Permits" to "Number of Outlets."

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

Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the County and the City from 2013 through 2017.

BUILDING PERMIT VALUATIONS County of Riverside Calendar Years 2013-2017 (Dollars in thousands)

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------|----------------|----------------|----------------|------------------|------------------|
| Valuation (\$000): | | | | | |
| Residential | \$1,375,593 | \$1,621,751 | \$1,536,742 | \$1,759,534 | \$1,903,417 |
| Non-residential | <u>873,977</u> | <u>814,990</u> | <u>113,488</u> | <u>1,346,020</u> | <u>1,433,691</u> |
| Total | \$2,249,570 | \$2,436,741 | \$1,650,230 | \$3,105,554 | \$3,337,108 |
| Residential Units: | | | | | |
| Single family | 4,716 | 5,007 | 5,007 | 5,662 | 6,265 |
| Multiple family | <u>1,427</u> | <u>1,931</u> | <u>1,189</u> | <u>1,039</u> | <u>1,070</u> |
| Total | 6,143 | 6,938 | 6,196 | 6,701 | 7,335 |

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

Source: California Homebuilding Foundation/Construction Industry Research Board.

BUILDING PERMIT VALUATIONS City of Menifee Calendar Years 2013-2017 (Dollars in thousands)

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------------|---------------|--------------|-------------|---------------|---------------|
| Valuation (\$000): | | | | | |
| Residential | \$156,025 | \$161,274 | \$137,783 | \$183,832 | \$220,269 |
| Non-residential | <u>18,148</u> | <u>5,971</u> | <u>839</u> | <u>38,953</u> | <u>17,705</u> |
| Total | \$174,173 | \$167,245 | \$138,623 | \$222,785 | \$237,974 |
| Residential Units: | | | | | |
| Single family | 517 | 465 | 404 | 564 | 714 |
| Multiple family | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | 517 | 465 | 404 | 564 | 714 |

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

Source: California Homebuilding Foundation/Construction Industry Research Board.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds in definitive form, Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the Menifee Union School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:

[To be prepared by Jones Hall, A Professional Law Corporation]

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$(Principal Amount)
MENIFEE UNION SCHOOL DISTRICT
(Riverside County, California)
2017 GENERAL OBLIGATION BONDS, SERIES A

This Continuing Disclosure Certificate (the “**Disclosure Certificate**”) is executed and delivered by the Menifee Union School District (the “**District**”) in connection with the issuance of \$[Principal Amount] of the District’s 2017 General Obligation Bonds, Series A (the “**Bonds**”). The Bonds are being issued pursuant to a Resolution of the District adopted on October [23], 2018 (the “**District Resolution**”) and a Resolution of the Board of Supervisors of the County of Riverside (the “**County**”), adopted on November [6], 2018 (the “**County Resolution**” and together with the District Resolution, the “**Bond Resolution**”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Owners and Beneficial Owners (as defined below) of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

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

“**Annual Report**” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“**Annual Report Date**” means the date that is six months after the end of the District’s fiscal year, (currently December 31 based on the District’s fiscal year end of June 30).

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

“**Dissemination Agent**” means Cooperative Strategies, LLC, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

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

“**Enumerated Events**” means any of the events listed in Section 5 of this Disclosure Certificate.

“**MSRB**” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“**Official Statement**” means the final official statement dated _____, 2018, executed by the District in connection with the issuance of the Bonds.

“**Owners**” shall mean registered owners of the Bonds.

“**Participating Underwriter**” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

“**State**” means the State of California.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing December 31, 2018, with the report for the 2017-18 Fiscal Year, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) 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 the previous sentence. 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 Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for an Enumerated Event under Section 5(c).

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District shall provide in a timely manner (or cause the Dissemination Agent to provide in a timely manner) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A, with a copy to the Participating Underwriter.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District, with a copy to the Participating Underwriter, certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or incorporate by reference the following documents and information:

(a) Audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited

financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the District's audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain the following:

- (i) the estimated average daily attendance in District schools on an aggregate basis for the current fiscal year;
- (ii) pension plan contributions made by the District for the preceding fiscal year;
- (iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of a date within 90 days of the date of the Annual Report;
- (iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;
- (v) prior fiscal year total secured property tax levy and collections, and if the Teeter Plan (as defined in the Official Statement) has been terminated showing current collections as of a date within 90 days of the Annual Report as a percent of the total levy;
- (vi) current fiscal year assessed valuation of taxable properties in the District;
- (vii) the balance in the Debt Service Fund as of a date within 45 days preceding the date of the Annual Report;
- (viii) the balance in any fund, account or subaccount thereunder, if any, as of a date within 45 days preceding the date of the Annual Report related to the Bonds not referenced in clauses (i), (iii) or (iv) hereof;
- (ix) the top twenty property owners in the District for the then current fiscal year, as measured by secured assessed valuation, the amount of their respective taxable value and their percentage of total secured assessed value, if the aggregate percentage of the top ten property owners of the total secured assessed value is greater than 5%; and
- (x) A statement regarding whether or not the County's Teeter Plan is applicable to the Bonds.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) 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 are available to the public through the EMMA System or filed with 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 Enumerated Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Enumerated Events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the District;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material;

(b) If an Enumerated Event occurs, and, if the Enumerated Event is described in subsections (a)(2), (a)(6),¹ (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the District determines that knowledge of the occurrence of that Enumerated Event would be material under applicable Federal securities law, the District shall, or shall notify the Dissemination Agent (if not the District) in writing and direct the Dissemination Agent to, file a notice of such occurrence with the

¹ If it relates to material notices or determinations with respect to the tax status of the security or other material events affecting the tax status of the security.

MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Enumerated Event, with a copy to the Participating Underwriter.

(c) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States 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 District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the earliest to occur of 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 an Enumerated Event under Section 5.

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a different Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(b) The undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The proposed amendment or waiver either (i) is approved by Owner of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of Owners or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds; and

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the

reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information 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. The comparison shall include a 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, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for an Enumerated Event under Section 5.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of an Enumerated Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of an Enumerated Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of an Enumerated Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate 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 Certificate. A default under this Disclosure Certificate shall not be deemed an "Event of Default" under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owner and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; EXECUTION PAGE FOLLOWS]

Section 14. Counterparts. This Disclosure Certificate 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.

Dated: [Closing Date], 2017

MENIFEE UNION SCHOOL DISTRICT

By: _____
Dr. Steve Kennedy, Superintendent

ACCEPTED AND AGREED:
Cooperative Strategies, LLC,
as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

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

Name of District: Meniffee Union School District

Name of Bond Issue: 2017 General Obligation Bonds, Series A

Date of Issuance: [Closing Date], 2017

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated [Closing Date], 2017, executed by the District with respect to the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

MENIFEE UNION SCHOOL DISTRICT

By _____ [form only; no signature required]

APPENDIX G

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

APPENDIX H

BOOK-ENTRY ONLY SYSTEM

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

Procedures and Record Keeping

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of

the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

Discontinuance of DTC Services

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

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

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