

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER \_\_, 2017**

**NEW ISSUE – BOOK-ENTRY ONLY**

**RATING:**

**Moody's: “\_\_”**

**(See “MISCELLANEOUS – Rating” herein.)**

*[In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Refunding Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Refunding Bonds. See “TAX MATTERS” herein. ]*



**[\$[PAR AMOUNT]\*  
MILLBRAE SCHOOL DISTRICT  
(San Mateo County, California)  
2017 General Obligation Refunding Bonds  
(Bank Qualified)**

**Dated: Date of Delivery**

**Due: July 1, as shown on the inside cover**

*This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

The Millbrae School District 2017 General Obligation Refunding Bonds (the “Refunding Bonds”) are issued by the Millbrae School District (the “District”), located in San Mateo County, California (the “County”) (i) to refund a portion of the District’s 2011 General Obligation Bonds (Election of 2008, Series B-2) (Tax-Exempt Current Interest Bonds/Tax-Exempt Capital Appreciation Bonds); and (ii) to pay costs of issuance of the Refunding Bonds. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property that is taxable at limited rates), for the payment of principal of and interest on the Refunding Bonds, all as more fully described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS.”

Interest on the Refunding Bonds is payable on each January 1 and July 1, commencing [First IPD], 2018, to maturity or earlier redemption. Principal of the Refunding Bonds is payable on July 1 in each of the years and in the amounts set forth on the inside front cover of this Official Statement. Payments of principal of and interest on the Refunding Bonds will be made by the Paying Agent, initially The Bank of New York Mellon Trust Company, N.A., to The Depository Trust Company, New York, New York (“DTC”), for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners (as defined in APPENDIX F) of the Refunding Bonds. See “THE REFUNDING BONDS – Payment of Principal and Interest” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

**The Refunding Bonds are subject to redemption prior to maturity as described under “THE REFUNDING BONDS—Redemption” herein.**

The Refunding Bonds will be issued in book-entry form only, and initially will be issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Refunding Bonds. See “THE REFUNDING BONDS – Form and Registration” and APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

**MATURITY SCHEDULE**

**See inside cover**

*The Refunding Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, and for the Underwriter by Kutak Rock LLP. It is anticipated that the Refunding Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2017.*

\* Preliminary, subject to change.

## **RBC Capital Markets, LLC**

The date of this Official Statement is \_\_\_\_\_, 2017.

**MATURITY SCHEDULE**  
**\$(PAR AMOUNT)\***  
**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**2017 General Obligation Refunding Bonds**  
**(Bank Qualified)**

**Base CUSIP<sup>†</sup> Number: 60012P**

| <u>Maturity</u><br><u>([July 1])</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>CUSIP</u><br><u>Suffix</u> |
|--------------------------------------|-----------------------------------|--------------------------------|--------------|-------------------------------|
|--------------------------------------|-----------------------------------|--------------------------------|--------------|-------------------------------|

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\* Preliminary, subject to change.

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**MILLBRAE SCHOOL DISTRICT  
DISTRICT BOARD OF EDUCATION**

Frank Barbaro  
*President*

D. Don Revelo  
*Trustee*

Denis Fama  
*Vice President*

Maggie Musa  
*Trustee*

Lynne Ferrario  
*Clerk*

**DISTRICT ADMINISTRATION**

Vahn Phayprasert  
*Superintendent*

Richard Champion  
*Chief Business Official*

**COUNTY ELECTED OFFICERS**

Sandie Arnott  
*Treasurer-Tax Collector*

Juan Raigoza  
*Auditor-Controller*

**PROFESSIONAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
*San Francisco, California*

**Financial Advisor**

KNN Public Finance, A Limited Liability Company  
*Oakland, California*

**Paying Agent and Escrow Agent**

The Bank of New York Mellon Trust Company, N.A.  
*Dallas, Texas*

**Verification Agent**

Causey Demgen & Moore P.C.  
*Denver, Colorado*

This Official Statement does not constitute an offering of any security other than the original offering of the Refunding Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Refunding Bonds are exempted from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Refunding Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Refunding Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Refunding Bonds.

**In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Refunding Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.**

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information set forth in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement contains forecasts, projections and estimates that are based upon expectations and assumptions that existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions in the State, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the District that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or as guarantees of results.

If and when included in this Official Statement, the words “plan,” “expect,” “forecast,” “estimate,” “budget,” “project,” “intends,” “anticipates” and similar words are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the District. These forward-looking statements speak only as of the date they were prepared.

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**\$(PAR AMONUT)\***  
**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**2017 General Obligation Refunding Bonds**  
**(Bank Qualified)**

**INTRODUCTION**

**General**

This Official Statement, which includes the cover page, inside front cover page and appendices hereto, is provided to furnish information in connection with the sale of the Millbrae School District 2017 General Obligation Refunding Bonds in the aggregate principal amount of \$(PAR AMOUNT)\* (the “Refunding Bonds”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the Millbrae School District (the “District”), the District has no obligation to update the information in this Official Statement. See “OTHER LEGAL MATTERS—Continuing Disclosure.”

The purpose of this Official Statement is to supply information to prospective buyers of the Refunding Bonds. Quotations from and summaries and explanations of the Refunding Bonds, the resolution of the Board of Trustees of the District providing for the issuance of the Refunding Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

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 Refunding Bonds.

Copies of documents referred to herein and information concerning the Refunding Bonds are available from the District from the Superintendent, 555 Richmond Drive, Millbrae, California 94030. The District may impose a charge for copying, handling and mailing such requested documents.

**The District**

The District, located in San Mateo County (the “County”), provides educational services to the residents in and around the Cities of Millbrae and San Bruno and is located south of San Francisco near San Francisco International Airport. The District’s projected average daily attendance for Fiscal Year 2017-18 is 2,375.06 students. The District’s 2017-18 projected general fund revenues are approximately \$23.37 million, and the District’s 2017-18 projected general fund expenditures are approximately \$24 million.

Currently, the District operates four elementary schools and one middle school. Taxable property in the District has a Fiscal Year 2017-18 assessed value of approximately \$9.00 billion. The District budgeted receipt of approximately \$12.61 million from local property taxes in fiscal year 2017-18, or 53.97% of its general fund revenue. The District’s budget for fiscal year 2017-18 includes 127.0 full-time

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\* Preliminary, subject to change.

equivalent (FTE) certificated (credentialed teaching) employees, 58.7 FTE classified (non-instructional) employees and 16.0 FTE management personnel. The District operates under the jurisdiction of the San Mateo County Superintendent of Schools.

The District is governed by a Board of Education consisting of five members. The members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools. Vahn Phayprasert was appointed as Superintendent on July 8, 2015. Prior to his appointment, Mr. Phayprasert served as an administrator in the Millbrae School District for seven years. He served as Dean of Students at Taylor Middle School, Principal at Spring Valley Elementary School and as Assistant Superintendent of Educational Services. Mr. Phayprasert holds a bachelor's degree in elementary education from Emporia State University in Kansas and a master's degree in educational administration from the University of Phoenix. He has prior classroom teaching experience and has served as a program improvement coach.

Richard Champion began his tenure as Chief Business Official in August 2016. Prior to joining the Millbrae School District, Mr. Champion held the role of Vice President for 15 years with a locally based contracting company with various construction projects throughout Northern California. During his tenure, he obtained the following certifications: State of California State Contractor's License, National Institute for Certification in Engineering Technologies (NICET), Universal Laboratories (UL) certification, Alarm Qualified Manager, Department of Industrial Relations Certified Fire and Life Safety, and General Electrical. Prior to his last employment, Mr. Champion owned and operated a tax and accounting business where he obtained the license of Enrolled Agent, Department of the Treasury (inactive status) and maintains an insurance license from the State of California. Mr. Champion holds a bachelor's degree in business administration from California State University of Fullerton and a master's degree in business administration from the University of Phoenix. In addition, he has completed his Chief Business Official designation from the University of California, Riverside.

For additional information about the District, see APPENDIX A – “DISTRICT FINANCIAL AND OPERATING INFORMATION.”

## **THE REFUNDING BONDS**

### **Authority for Issuance; Purpose**

The Refunding Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State (the “Government Code”), and applicable provisions of the Education Code of the State (the “Education Code”) and other applicable provisions of law and pursuant to a resolution adopted by the Board of Education of the District on [Resolution Date], 2017 (the “District Resolution”) and pursuant to the Paying Agent Agreement, dated as of November 1, 2017 (the “Paying Agent Agreement”), between the District and The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”). [The Board of Supervisors of the County approved the District selling the Refunding Bonds on its own behalf on [County Reso. Date], 2017.]

Proceeds from the Refunding Bonds will be used (i) to refund, on an advance basis, a portion of the District's outstanding 2011 General Obligation Bonds (Election of 2008, Series B-2) (Tax-Exempt Current Interest Bonds/Tax-Exempt Capital Appreciation Bonds) (the “2011 Series B-2 Bonds”) maturing on July 1 in the years [2029, 2034, and 2041] (the “Prior Bonds”), and (ii) to pay costs of issuance of the Refunding Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS” below.



## **Form and Registration**

The Refunding Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 principal amount or integral multiples thereof. The Refunding Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository of the Refunding Bonds. Purchases of Refunding Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Refunding Bonds, Beneficial Owners will not receive physical certificates representing their ownership interests. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

## **Payment of Principal and Interest**

The Refunding Bonds will be dated the date of their delivery, and bear interest at the rates set forth on the inside front cover page hereof, payable on July 1 and January 1 of each year, commencing on [First IPD], 2018 (each, an “Interest Payment Date”), until payment of the principal amount thereof, computed using a year of 360 days consisting of twelve 30-day months. The Refunding Bonds authenticated and registered on any date prior to the close of business on [Record Date], 2018, will bear interest from the date of their delivery. The Refunding Bonds authenticated during the period between the 15th day of the calendar month immediately preceding an Interest Payment Date (the “Record Date”) and the close of business on that Interest Payment Date will bear interest from that Interest Payment Date. Any other Bond will bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Refunding Bond, interest is then in default on outstanding Refunding Bonds, such Refunding Bonds will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The principal of the Refunding Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of the Paying Agent with respect to the Refunding Bonds, initially The Bank of New York Mellon Trust Company, N.A. (the “Paying Agent”), at the maturity thereof or upon redemption prior to maturity. Payment of interest on any Refunding Bond on each Interest Payment Date (or on the following business day, if the Interest Payment Date does not fall on a business day) is payable in lawful money of the United States of America to the person whose name appears on the registration books of the Paying Agent as the registered owner thereof (the “Owner”) as of the close of business on the preceding Record Date, such interest to be paid by check or draft mailed to such Owner at such Owner’s address as it appears on such registration books or at such other address as the Owner may have filed with the Paying Agent for that purpose on or before the Record Date. The Owner of an aggregate principal amount of \$1,000,000 or more of Refunding Bonds may request in writing to the Paying Agent to be paid interest by wire transfer to the bank and account number on file with the Paying Agent as of the applicable Record Date.

## **Redemption<sup>\*</sup>**

***Optional Redemption.*** The Refunding Bonds maturing on or before July 1, 20\_\_ are not subject to redemption prior to their respective stated maturity dates. The Refunding Bonds maturing on and after July 1, 20\_\_ are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after July 1, 20\_\_, at a redemption price equal to the principal amount plus accrued interest thereon to the date called for redemption, without premium.

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<sup>\*</sup> Preliminary, subject to change.

***Mandatory Sinking Fund Redemption.*** The \$\_\_\_\_\_ term Refunding Bonds maturing on July 1, 20\_\_, are subject to mandatory sinking fund redemption on July 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

| Mandatory Sinking Fund<br>Redemption Date<br>(July 1) | Principal Amount<br>to be Redeemed |
|---|------------------------------------|
| _____   | _____                              |

† Maturity.

The principal amount of the \$\_\_\_\_\_ term Refunding Bonds maturing on July 1, 20\_\_ to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of \$5,000, by any portion of the term Refunding Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

***Selection of Refunding Bonds for Redemption.*** If less than all of the Refunding Bonds are called for redemption, the Refunding Bonds will be redeemed in inverse order of maturities (or as otherwise directed by the District). Whenever less than all of a maturity of outstanding Refunding Bonds is designated for redemption, the portion to be redeemed will be determined by lot. For purposes of such determination, each Refunding Bond will be deemed to consist of individual Refunding Bonds of denominations of \$5,000, which may be separately redeemed.

***Notice of Redemption.*** Notice of redemption of any Refunding Bond is required to be mailed by the Paying Agent, upon written request to the District, postage prepaid not less than 20 nor more than 60 days prior to the date fixed for redemption (i) by first class mail to the respective owners of any Refunding Bond designated for redemption at their addresses appearing on the bond registration books of the Paying Agent; (ii) as may be further required in accordance with the Continuing Disclosure Certificate of the District; and (iii) in accordance with operational arrangements of DTC. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Each notice of redemption is required to contain the following information: (i) the date of such notice; (ii) the name of the affected Refunding Bonds and the date of issue of the Refunding Bonds; (iii) the date fixed for redemption; (iv) the redemption price, if available; (v) the dates of maturity of the Refunding Bonds to be redeemed; (vi) if less than all of the then outstanding Refunding Bonds are to be redeemed, the distinctive numbers of the Refunding Bonds of each maturity to be redeemed; (vii) in the case of Refunding Bonds redeemed in part only, the respective maturities or portions of the principal amount of the Refunding Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Refunding Bonds to be redeemed; (ix) a statement that such Refunding Bonds must be surrendered by the owners at the office of the Paying Agent designated by the Paying Agent for such purpose; and (x) notice that further interest on such Refunding Bonds will not accrue after the date fixed for redemption. The actual receipt by the owner of any Refunding Bond of notice of such redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Refunding Bonds.

***Effect of Notice of Redemption.*** When notice of redemption has been given substantially as provided for in the Paying Agent Agreement, and when the redemption price of the Refunding Bonds designated for redemption is set aside for the purpose as described in the Paying Agent Agreement, the

Refunding Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of such Refunding Bonds at the place or places specified in the notice of redemption, such Refunding Bonds will be redeemed and paid at the redemption price thereof out of the money provided therefor.

***Conditional Notice.*** Any notice of optional redemption may be conditioned on any fact or circumstance stated therein, and if such condition has not been satisfied on or prior to the date fixed for redemption stated in such notice, said notice will be of no force and effect on and as of the date fixed for redemption, the redemption will be cancelled, and the District will not be required to redeem the Refunding Bonds that were the subject of the notice. The Paying Agent is to give notice of such cancellation and reason therefore in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Refunding Bond of notice of such cancellation will not be a condition precedent to cancellation, and failure to receive such notice or any defect in such notice will not affect the validity of the cancellation.

***Rescission of Notice of Redemption.*** The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Refunding Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if, for any reason, on the date fixed for redemption, moneys are not available in the interest and sinking fund of the District within the treasury of the County (the "Interest and Sinking Fund") or otherwise held in trust for such purpose, in an amount sufficient to pay in full on said date, the principal of, interest, and any redemption premium due on the Refunding Bonds called for redemption. Notice of rescission of redemption is to be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Refunding Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

### **Defeasance of Refunding Bonds**

The District may pay and discharge any or all of the Refunding Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient in the opinion of a certified public accountant licensed to practice in the State to pay and discharge the indebtedness on such Refunding Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If at any time the District pays or causes to be paid or there is otherwise paid to the owners of any or all outstanding Refunding Bonds all of the principal, interest and premium, if any, represented by such Refunding Bonds when due, or as described above, or as otherwise provided by law, then such Owners shall cease to be entitled to the obligation of the County to levy and collect taxes to pay the Refunding Bonds and such obligation and all agreements and covenants of the District to such Owners under the Paying Agent Agreement shall thereupon be satisfied and discharged and shall terminate, except only that the District will remain liable for payment of all principal, interest and premium, if any, represented by such Refunding Bonds, but only out of moneys on deposit in the Interest and Sinking Fund or otherwise held in trust for such payment, provided, that the unclaimed moneys provisions described below will apply in all events.

**Unclaimed Money**

Any money held in any fund created pursuant to the Paying Agent Agreement, or held by the Paying Agent in trust, for the payment of the principal of, redemption premium, if any, or interest on the Refunding Bonds and remaining unclaimed for two years after the principal of all of the Refunding Bonds has become due and payable (whether by maturity or upon prior redemption) shall be transferred to the Interest and Sinking Fund for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys are to be transferred to the general fund of the District as provided and permitted by law.

## PLAN OF REFUNDING

A portion of the proceeds from the sale of the Refunding Bonds will be deposited in an escrow fund (the “Escrow Fund”) to be created and maintained by The Bank of New York Mellon Trust Company, N.A., acting as escrow agent (the “Escrow Agent”) under that certain Escrow Agreement, dated as of November 1, 2017 (the “Escrow Agreement”), by and between the District and the Escrow Agent. Moneys in the Escrow Fund will be held uninvested or invested in non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund, be fully sufficient to pay and discharge the indebtedness on the Prior Bonds, including all principal, interest and redemption premiums, on [July 1, 2021], the redemption date therefor. Causey Demgen & Moore P.C., Denver, Colorado, licensed to practice in the State, acting as escrow verification agent (the “Verification Agent”) with respect to the Escrow Fund, will verify the mathematical accuracy of the computations relating to the sufficiency of the moneys proposed to be deposited and invested in the Escrow Fund, together with earnings thereon, for the payment of interest on the Prior Bonds due on and prior to the redemption dates and the payment and redemption on such dates of all said Prior Bonds.

A portion of the proceeds of the Refunding Bonds will be retained by the Paying Agent in a Costs of Issuance Fund and used to pay costs associated with the issuance of the Refunding Bonds and the refunding of the Prior Bonds. Any proceeds of sale of the Refunding Bonds not needed to fund the Escrow Fund or to pay costs of issuance of the Refunding Bonds will be transferred to the County Treasurer for deposit in the District’s Interest and Sinking Fund in the County treasury, and applied only for payment of principal of and interest on outstanding bonds of the District. Amounts deposited into the Interest and Sinking Fund, as well as proceeds of taxes held therein for payment of the Refunding Bonds, will be invested at the sole discretion of the County Treasurer pursuant to law and the investment policy of the County. See APPENDIX E – “SAN MATEO COUNTY INVESTMENT POLICIES AND PRACTICES AND INVESTMENT REPORTS.”

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Refunding Bonds will be applied as follows:

### Sources of Funds

Principal Amount  
[Net] Original Issue [Premium/Discount]

### Total Sources

### Uses of Funds

Escrow Fund  
Underwriter’s Discount  
Costs of Issuance<sup>(1)</sup>

### Total Uses

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<sup>(1)</sup> Includes financial advisor fees, bond counsel fees, disclosure counsel fees, rating agency fees, paying agent fees, verification agent fees, printing fees and other miscellaneous expenses.

## **DEBT SERVICE**

### **Semi-Annual Debt Service Payments for the Refunding Bonds**

The scheduled debt service for the Refunding Bonds, assuming no early redemptions, is set forth in the following table.

**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**2017 General Obligation Refunding Bonds**

| <b>Payment<br/>Date</b> | <b>Principal<br/>Payment</b> | <b>Interest<br/>Payment</b> | <b>Semi-Annual<br/>Debt Service</b> | <b>Total Bonds<br/>Debt Service</b> |
|-------------------------|------------------------------|-----------------------------|-------------------------------------|-------------------------------------|
|-------------------------|------------------------------|-----------------------------|-------------------------------------|-------------------------------------|

**Total**

## **Aggregate Debt Service**

The District has previously issued six series of bonds which are secured by *ad valorem* property taxes levied upon all property subject to taxation by the District.

On November 4, 2008, voters in the District approved a bond measure authorizing the District to issue bonds in an aggregate principal amount not to exceed \$30,000,000 (the “2008 Authorization”) to renovate and modernize the elementary and middle schools in the District, including funds for repairing or replacing aging roofs, worn plumbing, heating, ventilating, lighting, and electrical systems with new, energy efficient systems; increasing student access to computers and technology, and creating a dedicated technology fund.

Pursuant to the 2008 Authorization, the District has issued the 2009 General Obligation Bonds (Election of 2008, Series A) (Bank Qualified) in the principal amount of \$12,000,000 dated April 21, 2009 (the “2009 Series A Bonds”), the 2011 General Obligation Bonds (Election of 2008, Series B) Series B-1 (Federally Taxable Qualified School Construction Bonds) (the “2011 Series B-1 Bonds”) in the principal amount of \$7,660,000, dated April 19, 2011, and the 2011 Series B-2 Bonds in the principal amount of \$10,339,527.25, dated April 19, 2011.

On November 8, 2011, voters in the District approved a bond measure authorizing the District to issue bonds in an aggregate principal amount not to exceed \$30,000,000 (the “2011 Authorization”) to continue to renovate and modernize the District’s aging schools and classrooms, improve energy efficiency, update classroom equipment and technology, improve school safety and build a new cafeteria at Taylor Middle School. Pursuant to the 2011 Authorization, the District has issued its General Obligation Bonds (Election of 2011, Series 2012), in the principal amount of \$20,000,000, dated May 8, 2012 and its General Obligation Bonds (Election of 2011, Series 2013), in the principal amount of \$10,000,000, dated December 11, 2013.

On August 1, 2017, the District issued \$8,720,000 of its 2016 General Obligation Refunding Bonds (the “2016 Refunding Bonds”) to refund a portion of the outstanding 2009 Series A Bonds.

See APPENDIX A — “DISTRICT FINANCIAL AND OPERATING INFORMATION—FINANCIAL AND DEMOGRAPHIC INFORMATION—District Debt Structure” for additional information regarding the District’s general obligation bonds. The annual debt service requirements, assuming no early redemptions, for all outstanding bonds of the District is set forth in the following table.

| <b>Year Ending<br/>July 1</b> | <b>Outstanding Bonds<br/>Gross Debt Service<sup>(1)(2)</sup></b> | <b>Refunding Bonds</b> | <b>Total Annual<br/>Debt Service</b> |
|-------------------------------|--|------------------------|--------------------------------------|
| 2018                          |  |                        |                                      |
| 2019                          |  |                        |                                      |
| 2020                          |  |                        |                                      |
| 2021                          |  |                        |                                      |
| 2022                          |  |                        |                                      |
| 2023                          |  |                        |                                      |
| 2024                          |  |                        |                                      |
| 2025                          |  |                        |                                      |
| 2026                          |  |                        |                                      |
| 2027                          |  |                        |                                      |
| 2028                          |  |                        |                                      |
| 2029                          |  |                        |                                      |
| 2030                          |  |                        |                                      |
| 2031                          |  |                        |                                      |
| 2032                          |  |                        |                                      |
| 2033                          |  |                        |                                      |
| 2034                          |  |                        |                                      |
| 2035                          |  |                        |                                      |
| 2036                          |  |                        |                                      |
| 2037                          |  |                        |                                      |
| 2038                          |  |                        |                                      |
| 2039                          |  |                        |                                      |
| 2040                          |  |                        |                                      |
| 2041                          |  |                        |                                      |
| 2042                          |  |                        |                                      |
| <b>TOTAL</b>                  |  |                        |                                      |

<sup>(1)</sup> [Does not include the expected subsidy payments from the federal government in connection with the interest on the District’s 2011 Series B-1 Bonds. The County has levied and is obligated to levy *ad valorem* property taxes in an amount sufficient to pay the principal of and interest on the 2011 Series B-1 Bonds when due and is obligated to deposit such amounts in the interest and sinking fund of the District.]

<sup>(2)</sup> Excludes debt service on the Prior Bonds to be refunded with a portion of the proceeds of the Refunding Bonds.



## **SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS**

### **General**

The interest, principal and premiums, if any, on the Refunding Bonds will be payable from moneys on deposit in the Interest and Sinking Fund, consisting of *ad valorem* taxes collected and held by the County Treasurer-Tax Collector, together with any net premium and accrued interest received upon issuance of the Refunding Bonds. In order to provide sufficient funds for repayment of principal and interest when due on the Refunding Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* 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). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the District's Interest and Sinking Fund, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Refunding Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Refunding Bonds.

### **Statutory Lien on Taxes (Senate Bill 222)**

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

### **Pledge of Tax Revenues**

The District has pledged all revenues from the *ad valorem* taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Refunding Bonds (collectively, the "Bonds"), of the District heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in the Interest and Sinking Fund of the District to the payment of the principal or redemption price of and interest on each series of Bonds. The Resolution provides that the property taxes and amounts held in the Interest and Sinking Fund shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund to secure the payment of the Refunding Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. This pledge constitutes an agreement between the District and the owners of the Bonds to provide security for the Bonds in addition to any statutory lien that may exist. The Bonds, excluding general obligation refunding bonds, secured by the pledge were issued to finance one or more of the projects specified in the applicable voter-approved measure.

## **Property Taxation System**

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the treasurer-tax collector of the county, the superintendent of schools of which has jurisdiction over the school district holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as *ex-officio* treasurer of the school district.

### **Assessed Valuation of Property Within the District**

**General.** Under Proposition 13, an amendment to the California Constitution adopted in 1978, the county assessor's valuation of real property is established as shown on the fiscal year 1975-76 tax bill, or, thereafter, as the appraised value of real property changes when purchased, newly constructed, or a change in ownership has occurred. Assessed value of property may be increased annually to reflect inflation at a rate not to exceed 2% per year, or reduced to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or in the event of declining property value caused by substantial damage, destruction, market forces or other factors. As a result of these rules, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property and of similar properties more recently sold. Likewise, changes in ownership of property and reassessment of such property to market value commonly lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full 2% increase on any property that has not changed ownership. See generally, APPENDIX A – "DISTRICT FINANCIAL AND OPERATING INFORMATION – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

**Classification of Locally Taxed Property.** Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

Under California law, a city or county could, and did, prior to recent California legislation dissolving redevelopment agencies, create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special *ad valorem* property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction

for redevelopment increment and such special *ad valorem* property taxes are not affected or diverted by the operation of a redevelopment agency project area. Recently, the State of California dissolved all redevelopment agencies. The application of such revenues diverted by redevelopment agencies is now substantially limited to meeting existing debt service of the redevelopment agencies. For more information on the dissolution of redevelopment agencies, see APPENDIX A – “DISTRICT FINANCIAL AND OPERATING INFORMATION—FINANCIAL AND DEMOGRAPHIC INFORMATION—State Funding of Education; State Budget Process—*Dissolution of Redevelopment Agencies.*”

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Refunding Bonds. The table below sets forth the taxable assessed valuation of property within the District from fiscal year 2008-09 through 2017-18.

**MILLBRAE SCHOOL DISTRICT**  
**Assessed Valuations**  
**Fiscal Years 2008-09 through 2017-18**

| <b><u>Fiscal Year</u></b> | <b><u>Local Secured</u></b> | <b><u>Utility</u></b> | <b><u>Unsecured</u><sup>(1)</sup></b> | <b><u>Total Before<br/>Redevelopment I<br/>ncrement</u></b> | <b><u>Annual %<br/>Change</u></b> |
|---------------------------|-----------------------------|-----------------------|---------------------------------------|---|-----------------------------------|
| 2008-09                   | \$3,668,591,200             | \$1,210,000           | \$2,198,426,837                       | \$5,868,228,037   | 8.46%                             |
| 2009-10                   | 3,804,520,960               | 1,210,000             | 2,228,664,988                         | 6,034,395,948   | 2.83                              |
| 2010-11                   | 3,824,446,458               | 1,210,000             | 1,850,935,228                         | 5,676,591,686   | (5.93)                            |
| 2011-12                   | 3,880,156,356               | --                    | 2,058,668,023                         | 5,938,824,379   | 4.62                              |
| 2012-13                   | 4,033,866,655               | --                    | 2,428,609,431                         | 6,462,476,086   | 8.82                              |
| 2013-14                   | 4,267,934,823               | --                    | 2,550,453,401                         | 6,818,388,224   | 5.51                              |
| 2014-15                   | 4,575,294,451               | --                    | 2,691,984,546                         | 7,267,278,997   | 6.58                              |
| 2015-16                   | 4,887,764,437               | --                    | 2,785,097,258                         | 7,672,861,695   | 5.58                              |
| 2016-17                   | 5,198,590,177               | --                    | 2,869,992,511                         | 8,068,582,688   | 5.16                              |
| 2017-18                   | 5,484,166,120               | --                    | 3,512,503,040                         | 8,996,669,160   | 11.50                             |

<sup>(1)</sup> See “– *San Francisco International Airport.*”

Source: California Municipal Statistics, Inc.

**State-Assessed Property.** Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property’s value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect, generally reducing the assessed value in the District as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed

property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

***Appeals of Assessed Valuation.*** State law affords an appeal procedure to taxpayers who disagree with the assessed value of their taxable property. Taxpayers may request a reduction in assessment directly from the County Assessor (the "Assessor"), who may grant or refuse the request, and may appeal an assessment directly to the San Mateo County Board of Equalization, which rules on appealed assessments whether or not settled by the Assessor. The Assessor is also authorized to reduce the assessed value of any taxable property upon a determination that the market value has declined below the then-current assessment, whether or not appealed by the taxpayer.

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Refunding Bonds to increase accordingly, so that the fixed debt service on the Refunding Bonds (and other outstanding bonds) may be paid. Proposition 8, adopted in 1978, amended Article XIII A of the State Constitution and added Section 51(a)(2) to the Revenue and Tax Code. Proposition 8 permits the County Assessor to reduce the full cash value of real property for property tax purposes to reflect substantial damages, destruction or other factors causing a decline in value. The District cannot predict how changing economic conditions may affect real property values in the future, and cannot predict how the County Assessor may respond to such conditions, or whether the County Assessor would reduce the full cash value of real property pursuant to Proposition 8 as discussed above. Declines in the full cash value of real property, including those caused by Proposition 8 reductions, would cause an increase in the tax rate. The District cannot predict if or when such increases in the tax rate may occur. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Tax Collector against all taxing agencies who received tax revenues, including the District.

***Bonding Capacity.*** As an elementary school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. As of [\_\_\_\_], 2017, the District's fiscal year 2016-17 gross bonding capacity is estimated at \$[\_\_\_\_] million, and its unused bonding capacity is approximately \$[\_\_\_\_] million, prior to the issuance of the Refunding Bonds. [The District's fiscal year 2017-18 gross bonding capacity is not available as of the date hereof.] Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

***Assessed Valuation by Land Use.*** The following table sets forth a distribution of taxable property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**MILLBRAE SCHOOL DISTRICT  
2017-18 Assessed Valuation and Parcels by Land Use**

|                                 | 2017-18<br><u>Assessed Valuation</u> <sup>(1)</sup> | % of<br><u>Total</u> | No. of<br><u>Parcels</u> | % of<br><u>Total</u> |
|---------------------------------|---|----------------------|--------------------------|----------------------|
| <b><u>Non-Residential:</u></b>  |   |                      |                          |                      |
| Commercial                      | \$330,101,152                                       | 6.02%                | 231                      | 3.13%                |
| Industrial                      | 42,710,154  | 0.78                 | 15                       | 0.20                 |
| Recreational                    | 10,067,624  | 0.18                 | 2                        | 0.03                 |
| Airport and Water Facilities    | 57,959,385  | 1.06                 | 70                       | 0.95                 |
| Government/Social/Institutional | 39,528,986  | 0.72                 | 44                       | 0.60                 |
| Miscellaneous                   | <u>2,134,595</u>                                    | <u>0.04</u>          | <u>32</u>                | <u>0.43</u>          |
| Subtotal Non-Residential        | \$482,501,896                                       | 8.80%                | 394                      | 5.34%                |
| <b><u>Residential:</u></b>      |   |                      |                          |                      |
| Single Family Residence         | \$3,774,071,202                                     | 68.82%               | 5,649                    | 76.60%               |
| Condominium/Townhouse           | 455,189,580   | 8.30                 | 757                      | 10.26                |
| Hotel/Motel                     | 176,392,590   | 3.22                 | 11                       | 0.15                 |
| 2-4 Residential Units           | 212,288,406   | 3.87                 | 291                      | 3.95                 |
| 5+ Residential Units/Apartments | <u>369,758,421</u>                                  | <u>6.74</u>          | <u>185</u>               | <u>2.51</u>          |
| Subtotal Residential            | \$4,987,700,199                                     | 90.95%               | 6,893                    | 93.46%               |
| Vacant Parcels                  | \$13,964,025  | 0.25%                | 88                       | 1.19%                |
| <b>Total</b>                    | <b>\$5,484,166,120</b>                              | <b>100.00%</b>       | <b>7,375</b>             | <b>100.00%</b>       |

<sup>(1)</sup> Local secured assessed valuation, excluding tax-exempt property.  
Source: California Municipal Statistics, Inc.

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**Assessed Valuation of Single-Family Residential Properties.** The following table sets forth the per parcel 2017-18 assessed valuation of single-family residential properties only, which comprise approximately 68.82% of the local secured assessed value of property in the District. The average assessed value is \$668,095, and the median assessed value is \$584,244 for single-family residential properties.

**MILLBRAE SCHOOL DISTRICT**  
**Per Parcel 2017-18 Assessed Valuation of Single Family Homes**

|                           | No. of<br>Parcels | 2017-18<br>Assessed Valuation | Average<br>Assessed Valuation | Median<br>Assessed Valuation |
|---------------------------|-------------------|-------------------------------|-------------------------------|------------------------------|
| Single Family Residential | 5,649             | \$3,774,071,202               | \$668,095                     | \$584,244                    |

  

| 2017-18<br>Assessed Valuation | No. of<br>Parcels <sup>(1)</sup> | % of<br>Total | Cumulative<br>% of Total | Total<br>Valuation | % of<br>Total | Cumulative<br>% of Total |
|-------------------------------|----------------------------------|---------------|--------------------------|--------------------|---------------|--------------------------|
| \$0 - \$99,999                | 201                              | 3.558%        | 3.558%                   | \$ 16,967,243      | 0.450%        | 0.450%                   |
| \$100,000 - \$199,999         | 1,099                            | 19.455        | 23.013                   | 154,731,227        | 4.100         | 4.549                    |
| \$200,000 - \$299,999         | 377                              | 6.674         | 29.687                   | 94,048,685         | 2.492         | 7.041                    |
| \$300,000 - \$399,999         | 384                              | 6.798         | 36.484                   | 133,835,655        | 3.546         | 10.588                   |
| \$400,000 - \$499,999         | 397                              | 7.028         | 43.512                   | 179,252,119        | 4.750         | 15.337                   |
| \$500,000 - \$599,999         | 430                              | 7.612         | 51.124                   | 236,793,054        | 6.274         | 21.611                   |
| \$600,000 - \$699,999         | 396                              | 7.010         | 58.134                   | 255,733,626        | 6.776         | 28.387                   |
| \$700,000 - \$799,999         | 315                              | 5.576         | 63.710                   | 235,749,496        | 6.247         | 34.634                   |
| \$800,000 - \$899,999         | 356                              | 6.302         | 70.012                   | 303,063,454        | 8.030         | 42.664                   |
| \$900,000 - \$999,999         | 333                              | 5.895         | 75.907                   | 316,249,308        | 8.380         | 51.044                   |
| \$1,000,000 - \$1,099,999     | 283                              | 5.010         | 80.917                   | 295,918,764        | 7.841         | 58.884                   |
| \$1,100,000 - \$1,199,999     | 235                              | 4.160         | 85.077                   | 270,327,977        | 7.163         | 66.047                   |
| \$1,200,000 - \$1,299,999     | 197                              | 3.487         | 88.564                   | 246,727,409        | 6.537         | 72.585                   |
| \$1,300,000 - \$1,399,999     | 188                              | 3.328         | 91.892                   | 253,859,811        | 6.726         | 79.311                   |
| \$1,400,000 - \$1,499,999     | 130                              | 2.301         | 94.194                   | 188,026,786        | 4.982         | 84.293                   |
| \$1,500,000 - \$1,599,999     | 90                               | 1.593         | 95.787                   | 138,609,212        | 3.673         | 87.966                   |
| \$1,600,000 - \$1,699,999     | 74                               | 1.310         | 97.097                   | 122,186,000        | 3.238         | 91.203                   |
| \$1,700,000 - \$1,799,999     | 52                               | 0.921         | 98.017                   | 90,901,264         | 2.409         | 93.612                   |
| \$1,800,000 - \$1,899,999     | 36                               | 0.637         | 98.655                   | 66,427,819         | 1.760         | 95.372                   |
| \$1,900,000 - \$1,999,999     | 20                               | 0.354         | 99.009                   | 38,918,576         | 1.031         | 96.403                   |
| \$2,000,000 and greater       | 56                               | 0.991         | 100.000                  | 135,743,717        | 3.597         | 100.000                  |
| Total                         | 5,649                            | 100.000%      |                          | \$3,774,071,202    | 100.000%      |                          |

<sup>(1)</sup> Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.  
Source: California Municipal Statistics, Inc.

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***Largest Secured Taxpayers in District.*** The top 20 taxpayers (on the secured roll) account for 9.00% of the total secured assessed value and no single taxpayer accounts for more than 2.32% of the total secured assessed value. The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See "—Appeals of Assessed Valuation" above.

***San Francisco International Airport.*** San Francisco International Airport ("SFO") accounts for a significant portion of the assessed value in the District. The City and County of San Francisco is the second largest secured taxpayer in the District (constituting approximately 1.04% of the total secured assessed value) in large part because of SFO, see "—Largest Secured Taxpayers in District" herein. Several airlines which operate from SFO, including, but not limited to, United Airlines, Inc., Virgin America, Inc., and American Airlines, Inc., are among the largest unsecured taxpayers in the District. Property belonging to the aforementioned airlines constitutes a significant portion of the unsecured assessed value in the District's boundaries. In 2017-18, [United Airlines, Inc.], the largest unsecured taxpayer, had an unsecured valuation which comprised approximately [\_\_]% of the total taxable property in the District. The aggregate 2017-18 local unsecured assessed valuation of \$[\_\_] included the following unsecured value from the following property owners, among others, \$[\_\_] held by United Airlines Inc., \$[\_\_] owned by Virgin America Inc., \$[\_\_] owned by American Airlines Inc., \$[\_\_] owned by Delta Air Lines Inc., and \$[\_\_] owned by Skywest Airlines Inc. The District cannot predict whether or how assessed value at SFO may change in the future or the effect such changes may have on the District's bonding capacity or tax rate.

## **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* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness. One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax.

The rate of tax necessary to pay fixed debt service on the Refunding Bonds in a given year depends on the assessed value of taxable property in that year. Unsecured property is taxed at the secured property tax rate from the prior year. Property values could be reduced by factors beyond the District's control, such as a depressed real estate market due to general economic conditions in the San Francisco Bay Area. The District is located in a seismically active area, and property within the District could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the Bay Area's economic activity. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or 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). Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Refunding Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Other local agencies can also impose *ad valorem* taxes on property owners in the District, generally for outstanding voter-approved general obligation debt. The following table sets forth *ad valorem* property tax rates for the last several years in a typical Tax Rate Area of the District (TRA 14-001). The 2016-17 assessed value of TRA 14-001 is \$2.59 billion, or approximately 32.12% of the total 2016-17 assessed value of the District.

**MILLBRAE SCHOOL DISTRICT**  
**Percentage of Assessed Valuation**  
**Summary of *Ad valorem* Tax Rates**  
**TRA 14-001 <sup>(1)</sup>**

| Fiscal Year                          | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| General Tax Rate                     | 1.0000%        | 1.0000%        | 1.0000%        | 1.0000%        | 1.0000%        |
| City of Millbrae                     | 0.0169         | 0.0143         | 0.0135         | 0.0129         | 0.0122         |
| Millbrae School District             | 0.0355         | 0.0428         | 0.0465         | 0.0461         | 0.0430         |
| San Mateo Union High School District | 0.0381         | 0.0355         | 0.0475         | 0.0466         | 0.0415         |
| San Mateo Community College District | <u>0.0194</u>  | <u>0.0194</u>  | <u>0.0190</u>  | <u>0.0250</u>  | <u>0.0247</u>  |
| Total Tax Rate                       | 1.1099%        | 1.1120%        | 1.1265%        | 1.1306%        | 1.1214%        |

*Source:* California Municipal Statistics, Inc.

<sup>(1)</sup> 2016-17 Assessed Valuation of TRA 14-001 is \$2,591,250,283 which is approximately 32.12% of the District's total assessed valuation.

### **Tax Collections and Delinquencies**

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Refunding Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County Treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$40 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the County Treasurer.

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the County Treasurer may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the County, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The County Treasurer may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.



The following table sets forth a recent history of tax delinquency rates in the District.

**MILLBRAE SCHOOL DISTRICT**  
**Secured Tax Delinquencies**

| Fiscal Year | Secured Tax Charge <sup>(1)</sup> | Amount Delinquent<br>June 30 | % Delinquent<br>June 30 |
|-------------|-----------------------------------|------------------------------|-------------------------|
| 2010-11     | \$ 960,489.01                     | \$ 8,364.91                  | 0.87%                   |
| 2011-12     | 1,136,492.91                      | 8,129.85                     | 0.72                    |
| 2012-13     | 1,419,213.87                      | 8,930.07                     | 0.63                    |
| 2013-14     | 1,817,857.51                      | 6,448.42                     | 0.35                    |
| 2014-15     | 2,117,776.13                      | 9,330.17                     | 0.44                    |
| 2015-16     | 2,242,025.26                      | 10,128.88                    | 0.45                    |
| 2016-17     | 2,232,313.17                      | 8,327.37                     | 0.37                    |

<sup>(1)</sup> General Obligation Bonds debt service levy.

Source: California Municipal Statistics, Inc.

**Teeter Plan.** The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including the District, receives the full amount of uncollected taxes credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district bonds.

The County’s policy is that any new taxing entity that includes its levy on the County tax roll is qualified to be included in the Teeter Plan. The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls in that agency. The rate of secured tax delinquencies in the District has not exceeded 3% in any of the last five years for which such data is available.

**Direct and Overlapping Debt**

Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective September 1, 2017 for debt issued as of September 1, 2017. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column three, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. 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.

**MILLBRAE SCHOOL DISTRICT  
(County of San Mateo, California)  
Direct and Overlapping Bonded Debt**

2017-18 Assessed Valuation: \$8,996,669,160

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>                      | <u>% Applicable <sup>(1)</sup></u> | <u>Debt 9/1/17</u>                  |
|---|------------------------------------|-------------------------------------|
| San Mateo Community College District  | 4.205%                             | \$ 24,238,632                       |
| San Mateo Union High School District  | 11.992                             | 62,119,927                          |
| <b>Millbrae School District</b>   | <b>100.000</b>                     | <b>54,794,527 <sup>(2)</sup></b>    |
| City of Millbrae  | 100.000                            | 8,780,000                           |
| California Statewide Communities Development Authority Assessment Districts | 100.000                            | <u>2,817,852</u>                    |
| <b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>                 |                                    | <b>\$152,750,938</b>                |
| <br><u>OVERLAPPING GENERAL FUND DEBT:</u>                                   |                                    |                                     |
| San Mateo County General Fund Obligations                                   | 4.205%                             | \$16,157,379                        |
| San Mateo County Board of Education Certificates of Participation           | 4.205                              | 392,327                             |
| City of Millbrae Pension Obligation Bonds                                   | 100.000                            | 6,022,265                           |
| City of San Bruno Pension Obligation Bonds                                  | 3.625                              | <u>349,813</u>                      |
| <b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>                                  |                                    | <b>\$22,921,784</b>                 |
| <br><u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>             |                                    | <b>\$6,777,697</b>                  |
| <br><b>COMBINED TOTAL DEBT</b>  |                                    | <b>\$182,450,419 <sup>(3)</sup></b> |

<sup>(1)</sup> Based on 2016-17 ratios.

<sup>(2)</sup> Excludes general obligation bonds to be sold.

<sup>(3)</sup> Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2017-18 Assessed Valuation:

**Direct Debt (\$54,794,527)..... 0.61%**  
 Total Direct and Overlapping Tax and Assessment Debt..... 1.70%  
 Combined Total Debt ..... 2.03%

Ratios to Redevelopment Incremental Valuation (\$1,075,081,167):

Total Overlapping Tax Increment Debt..... 0.63%

Source: California Municipal Statistics, Inc.

## TAX MATTERS

[In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Refunding Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Refunding Bonds is less than the amount to be paid at maturity of such Refunding Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Refunding Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Refunding Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Refunding Bonds is the first price at which a substantial amount of such maturity of the Refunding Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Refunding Bonds accrues daily over the term to maturity of such Refunding Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Refunding Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Refunding Bonds. Beneficial Owners of the Refunding Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Refunding Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Refunding Bonds in the original offering to the public at the first price at which a substantial amount of such Refunding Bonds is sold to the public.

Refunding Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Refunding Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Refunding Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Refunding Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Refunding Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or

not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Refunding Bonds may adversely affect the value of, or the tax status of interest on, the Refunding Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Refunding Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Refunding Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Refunding Bonds to be subject, directly or indirectly, in whole or in part, 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 or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Refunding Bonds. Prospective purchasers of the Refunding Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Refunding Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Refunding Bonds ends with the issuance of the Refunding Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Refunding Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Refunding Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Refunding Bonds, and may cause the District or the Beneficial Owners to incur significant expense.]

## **OTHER LEGAL MATTERS**

### **Legal Opinion**

The validity of the Refunding Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the District. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX C hereto.

Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Refunding Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than nine months after the end of the District’s fiscal year (presently June 30) for each year in which the Bonds are outstanding, commencing with the Annual Report for the fiscal year of the District ending June 30, 2017 (which is due no later than April 1, 2018), and to provide notices of the occurrence of certain enumerated events (each, a “Listed Event”). The Annual Report will be filed by the District with the Municipal Securities Rulemaking Board (“MSRB”). The notices of Listed Events will be filed by the District with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of Listed Events is summarized in APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) of the U.S. Securities and Exchange Commission (“SEC”). In the last five years, the District failed to file certain information required to be submitted as part of the annual report and failed to file notices of such failures in a timely and complete manner. The District has since filed such information. The District has self-reported pursuant to the SEC’s Municipal Continuing Disclosure Cooperation Initiative with respect to certain statements in prior official statements regarding the District’s compliance with its prior continuing disclosure undertakings pursuant to the Rule. The District has hired KNN Public Finance, as Dissemination Agent, to ensure compliance with its continuing disclosure obligations. [Confirm or update this information based on five year lookback of District’s compliance with continuing disclosure undertakings.]

### **No Litigation**

No litigation is pending or threatened concerning the validity of the Refunding Bonds, or the District’s ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District’s ability to issue and retire the Refunding Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District or County officials who will sign the Refunding Bonds and other certifications relating to the Refunding Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to purchasers at the time of the original delivery of the Refunding Bonds.

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

### **Bank Qualified**

[The District has designated the Refunding Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Code. Pursuant to that section, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank qualified” investments.]

### **ESCROW VERIFICATION**

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter relating to the computation of projected receipts of principal and interest on the government obligations, and the projected payments of principal, redemption premium, if any, and interest to retire the

Prior Bonds to be refunded will be verified by Causey Demgen & Moore P.C., the Verification Agent. Such computations will be based solely on assumptions and information supplied by the District and the Underwriter. The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

## **MISCELLANEOUS**

### **Rating**

[Moody's Investors Service] has assigned its rating of "[\_\_]" to the Refunding Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions. The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. The District has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement). Such rating reflects only the view of the rating agency, and any explanation of the significance of any rating may be obtained from the rating agency furnishing such rating. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Refunding Bonds. Neither the Underwriter nor the District has undertaken any responsibility after the offering of the Refunding Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

### **Professionals Involved in the Offering**

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and as Disclosure Counsel to the District with respect to the Refunding Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Refunding Bonds. KNN Public Finance, A Limited Liability Company, is acting as Financial Advisor with respect to the Refunding Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Refunding Bonds. Kutak Rock LLP is acting as Underwriter's Counsel with respect to the Refunding Bonds and will receive compensation from the Underwriter contingent upon the sale and delivery of the Refunding Bonds.

### **Underwriting**

The Refunding Bonds are being purchased by RBC Capital Markets, LLC (the "Underwriter"). Pursuant to the terms of a contract of purchase between the District and the Underwriter (the "Purchase Contract"), the Underwriter will be obligated to purchase all of the Refunding Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the District. The Underwriter has agreed to purchase the Refunding Bonds from the District at a purchase price of \$\_\_\_\_\_. The Underwriter's discount is \$\_\_\_\_\_. Pursuant to the Purchase Contract, the Underwriter shall deposit \$\_\_\_\_\_ with The Bank of New York Mellon Trust Company, N.A., as fiscal agent, to pay costs of issuance.

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

### **Additional Information**

Quotations from and summaries and explanations of the Refunding Bonds and the Paying Agent Agreement do not purport to be complete, and said documents, while not incorporated herein by reference, are available on request from the District. See "INTRODUCTION."

\* \* \*

All data contained herein have been taken or constructed from the District's records and other sources, as indicated. This Official Statement and its distribution have been duly authorized and approved by the District.

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

**MILLBRAE SCHOOL DISTRICT**

By: \_\_\_\_\_  
Chief Business Official

## **APPENDIX A**

### **DISTRICT FINANCIAL AND OPERATING INFORMATION**

*The information in this appendix concerning the operations of the District, the District's finances, and State funding of education, 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 Refunding Bonds is payable from the general fund of the District or from State revenues. The Refunding Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and Constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal and interest on the Refunding Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING BONDS" in the front section of this Official Statement.*

### **FINANCIAL AND DEMOGRAPHIC INFORMATION**

#### **General**

The District, located in San Mateo County (the "County"), provides educational services to the residents in and around the Cities of Millbrae and San Bruno and is located south of San Francisco near San Francisco International Airport. The District's projected average daily attendance for Fiscal Year 2017-18 is 2,375.06 students. The District's 2017-18 projected general fund revenues are approximately \$23.37 million, and the District's 2017-18 projected general fund expenditures are approximately \$24 million.

Currently, the District operates four elementary schools and one middle school. The District operates under the jurisdiction of the San Mateo County Superintendent of Schools. The District is governed by a Board of Education consisting of five members. The members are elected to four-year terms in staggered years. The day-to-day operations are managed by a board-appointed Superintendent of Schools (the "Superintendent"). Vahn Phayprasert was appointed as Superintendent on July 8, 2015. Prior to his appointment, Mr. Phayprasert served as an administrator in the Millbrae School District for seven years. He served as Dean of Students at Taylor Middle School, Principal at Spring Valley Elementary School and as Assistant Superintendent of Educational Services. Mr. Phayprasert holds a bachelor's degree in elementary education from Emporia State University in Kansas and a master's degree in educational administration from the University of Phoenix. He has prior classroom teaching experience and has served as a program improvement coach.

Richard Champion began his tenure as Chief Business Official in August 2016. Prior to joining the Millbrae School District, Mr. Champion held the role of Vice President for 15 years with a locally based contracting company with various construction projects throughout Northern California. During his tenure, he obtained the following certifications: State of California State Contractor's License, National Institute for Certification in Engineering Technologies (NICET), Universal Laboratories (UL) certification, Alarm Qualified Manager, Department of Industrial Relations Certified Fire and Life Safety, and General Electrical. Prior to his last employment, Mr. Champion owned and operated a tax and accounting business where he obtained the license of Enrolled Agent, Department of the Treasury (inactive status) and maintains an insurance license from the State of California. Mr. Champion holds a bachelor's degree in business administration from California State University of Fullerton and a master's degree in business administration from the University of Phoenix. In addition, he has completed his Chief Business Official designation from the University of California, Riverside.



## State Funding of Education; State Budget Process

**General.** As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (see "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein) and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "– Local Sources of Education Funding" herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District projects to receive approximately 39% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), projected at approximately \$9.12 million in fiscal year 2017-18. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "– Allocation of State Funding to School Districts; Local Control Funding Formula – Attendance and LCFF" and "– Other District Revenues – Other State Revenues" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented a new funding formula for school finance system called the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF"). Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See "– Allocation of State Funding to School Districts; Local Control Funding Formula" herein for more information.

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. Historically, the budget required a two-thirds vote of each house of the State Legislature for passage. However, on November 2, 2010, the State's voters approved Proposition 25, which amended the State Constitution to lower the vote requirement necessary for each house of the State Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement was lowered from two-thirds to a simple majority (50% plus one) of each house of the State Legislature. The lower vote requirement would also apply to trailer bills that appropriate funds and are identified by the State Legislature "as related to the budget in the budget bill." The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. Under Proposition 25, a two-thirds vote of the State Legislature is still required to override any veto by the Governor. 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. The Governor signed the fiscal year 2015-16 State budget on June 24, 2015 and the fiscal year 2016-17 State budget on June 27, 2016 and the 2017-18 State budget on June 27, 2017.

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 State 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. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

***Aggregate State Education Funding.*** 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."

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to the years in which the Proposition 98 minimum guarantee was suspended. 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, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far 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, 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 from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Refunding Bonds, and the District takes no responsibility for informing owners of the Refunding 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. Text of proposed and adopted budgets may be found at the website of the Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

***Prohibitions on Diverting Local Revenues for State Purposes.*** Beginning in 1992-93, the State 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, known as "Proposition 22."

***Rainy Day Fund; SB 858.*** In connection with the 2014-15 State Budget, the Governor proposed certain constitutional amendments ("Proposition 2") to the rainy day fund (the "Rainy Day Fund") for the November 2014 Statewide election. Senate Bill 858 (2014) ("SB 858") amended the Education Code to, among other things, limit the amount of reserves that may be maintained by a school district subject to certain State budget matters. Upon the approval of Proposition 2, SB 858 became operational. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein.

***AB 1469.*** As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 ("AB 1469") which implemented a new funding strategy for the California State Teachers' Retirement System ("CalSTRS"), increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll and authorized additional increases to the employer contribution rate in subsequent fiscal years. See "– Retirement Benefits – CalSTRS" herein for more information about CalSTRS and AB 1469.

***2017-18 State Budget.*** The Governor signed the fiscal year 2017-18 State Budget (the "2017-18 State Budget") on June 27, 2017. The 2017-18 State Budget sets forth a balanced budget for fiscal year 2017-18 that projects approximately \$127.88 billion in revenues, and \$72.47 billion in non-Proposition 98 expenditures and \$52.63 billion in Proposition 98 expenditures. The 2017-18 State Budget includes a \$1.4 billion reserve in the Special Fund for Economic Uncertainties and adds \$1.8 billion to the Proposition 2 Budget Stabilization Account, bringing the balance to \$8.5 billion in 2017-18, which is

66% of the constitutional target. The 2017-18 State Budget uses dedicated proceeds from Proposition 2 to pay down nearly \$1.8 billion in past budgetary borrowing and State employee pension liabilities. The 2017-18 State Budget also includes a \$6 billion supplemental payment to CalPERS (as defined herein) through a loan from the Surplus Money Investment Fund that the Governor expects will reduce unfunded liabilities and stabilize state contribution rates. The State's General Fund share of the repayment will come from Proposition 2's revenues dedicated to reducing debts and long-term liabilities.

Certain budgeted adjustments for K-12 education set forth in the 2017-18 State Budget include the following:

- Local Control Funding Formula. The 2017-18 State Budget includes an increase of almost \$1.4 billion in Proposition 98 general funds to continue the State's transition to LCFF. The LCFF commits most new funding to school districts serving English language learners, students from low-income families, and youth in foster care. The Governor expects this increase will bring the formula to approximately 97 percent of full implementation.
- One-Time Discretionary Grants. The 2017-18 State Budget includes an increase of \$877 million in Proposition 98 general fund to provide school districts, county offices of education, and charter schools with discretionary resources to support critical investments at the local level. These funds can be used for activities such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and the implementation of new educational standards. Funds received by K-12 local educational agencies will first satisfy any outstanding claims for reimbursement of State-mandated local program costs for any fiscal year, but the 2017-18 State Budget authorizes the governing boards of school districts to expend these one-time funds for any purpose.
- After School and Education Safety ("ASES") Program. The 2017-18 State Budget includes an increase of \$50 million in Proposition 98 general funds to increase provider reimbursement rates for the ASES program, bringing the total spending to \$600 million of Proposition 98 general funds.
- Teacher Workforce. The 2017-18 State Budget includes a combined increase of \$41.3 million one-time (\$30 million one-time in Proposition 98 general fund and \$11.3 million in one-time federal Title II funds) to fund several programs aimed at recruiting and developing additional teachers and school leaders, with particular emphasis on key shortage areas such as special education, math, science, and bilingual education. Specific investments include:
  - California Educator Development Program. The 2017-18 State Budget includes an increase of \$11.3 million in one-time federal Title II funds for a one-time competitive grant program designed to assist local educational agencies in attracting and supporting the preparation and continued learning of teachers, principals, and other school leaders in high-need subjects and schools.
  - Classified School Employees Credentialing Program. The 2017-18 State Budget includes an increase of \$25 million in one-time Proposition 98 general funds, available for five years, to support a second cohort of the California Classified School Employees Credentialing Program established in the State's 2016 Budget Act. The program will provide grants to K-12 local educational agencies to support recruitment of non-certificated school employees to participate in a teacher preparation program and become certificated classroom teachers in California public schools.

- Bilingual Professional Development Program. The 2017-18 State Budget includes an increase of \$5 million one-time Proposition 98 general funds for one-time competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.
- County Office of Education Accountability Assistance. The 2017-18 State Budget includes an increase of \$7 million in Proposition 98 general funds on an ongoing basis to support county office Local Control and Accountability Plan review and technical assistance workload. Specifically, this funding will be distributed proportionally to 24 county offices currently funded at their LCFF target level on a per district basis with no county receiving less than \$80,000. The 2017-18 State Budget directs the State to adjust such amounts by the cost of living annually commencing with fiscal year 2018-19. The 2017-18 State Budget also requires county superintendents of schools to prepare a summary of how the county office of education will support school districts and schools within the county, and work with the California Collaborative for Education Excellence, the California Department of Education and other county offices of education.
- K-12 Mandate Block Grant. The 2017-18 State Budget includes an increase of \$3.5 million in Proposition 98 general funds, which is the result of a cost-of-living adjustment for the block grant. The 2017-18 State Budget also adds two additional mandated programs to the block grant for 2017-18, the California Assessment of Student Performance and Progress program and the Training for School Employee Mandated Reporters program.
- California Equity Performance and Improvement Program. The 2017-18 State Budget includes an increase of \$2.5 million in one-time Proposition 98 general funds to support and build capacity within local educational agencies and the State Department of Education to promote equity in California public schools. The 2017-18 State Budget directs the Superintendent of Public Instruction to apportion the funds to at least two designated lead agencies, which shall be county offices of education.
- Refugee Student Support. The 2017-18 State Budget appropriates \$10 million for fiscal year 2017–18 from the State’s General Fund to the California Department of Social Services in order to provide additional services for refugee pupils by allocating funding to school districts impacted by significant numbers of refugee pupils and other eligible populations served by the federal Office of Refugee Resettlement based on the eligibility criteria and allocation methodology set forth for the federal Refugee School Impact program. The 2017-18 State Budget directs the State to appropriate an equal amount for grants in fiscal years 2017–18, 2018–19, and 2019–20.
- K-12 School Facilities Program Accountability. The 2017-18 State Budget requires that projects funded under the Office of Public School Construction’s School Facility Program be subject to expenditure audits in the annual K-12 audit guide. Accordingly, any local educational agency that receives specified funds relating to school facility projects will be required to annually report a detailed list of all expenditures of State funds, including interest, and of the local educational agency’s matching funds for completed projects until all State funds, including interest, all of the local educational agency’s matching funds, and savings achieved, including interest, are expended in accordance with State law. To help facilitate compliance with this requirement, the 2017-18 State Budget authorizes participating local educational agencies to repay any audit findings with local funds.
- District of Choice Program Extension. If a school district is designated as a District of Choice it must agree to accept interested students regardless of their academic abilities or personal

characteristics. In addition, interested students generally do not need to seek permission from their home districts to attend a District of Choice. The 2017-18 State Budget extends the district of choice program, due to sunset in 2018, by six years and adds various oversight and accountability requirements for participating districts.

The complete 2017-18 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Changes in State Budget.*** The District cannot predict the impact that the 2017-18 State Budget, or subsequent budgets, will have on its finances and operations. The 2017-18 State Budget may be affected by national and State economic conditions and other factors which the District cannot predict.

***Prohibitions on Diverting Local Revenues for State Purposes.*** Beginning in 1992-93, the State 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 community 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 State 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, known as “Proposition 22.”

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see “–Dissolution of Redevelopment Agencies” below). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State’s authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years—such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State’s general fund.

***Dissolution of Redevelopment Agencies.*** The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) (“AB1X 26”) and Assembly Bill No. 27 (First Extraordinary Session) (“AB1X 27”), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency

activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below.

In July 2011, various parties filed an action before the Supreme Court of the State of California (the “Court”) challenging the validity of AB1X 26 and AB1X 27 on various grounds (*California Redevelopment Association v. Matosantos*). On December 29, 2011, the Court rendered its decision in *Matosantos* upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in *Matosantos*.

On February 1, 2012, and pursuant to *Matosantos*, AB1X 26 dissolved all redevelopment agencies in existence and designated “successor agencies” and “oversight boards” to satisfy “enforceable obligations” of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its “enforceable obligations.” For this purpose, AB1X 26 defines “enforceable obligations” to include “bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency” and “any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy.” AB1X 26 specifies that only payments included on an “enforceable obligation payment schedule” adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution. However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in AB1X 26. AB1X 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 (now each January 2 and June 1 pursuant to AB 1484, as described below) thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;

- To the former redevelopment agency's successor agency for payments listed on the successor agency's recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency's successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

It is possible that there will be additional legislation proposed and/or enacted to "clean up" various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

## **District Revenues**

***Allocation of State Funding to School Districts; Local Control Funding Formula.*** Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some equalization aid were commonly referred to as "revenue limit districts," which are now referred to as "LCFF districts." The District is currently an LCFF district although, in a prior year, it was a basic aid/community funded district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant ("Base Grant") per unit of average daily attendance ("A.D.A.") with additional supplemental funding (the "Supplemental Grant") allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF has an eight year



implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The LCFF includes the following components:

- A Base Grant for each local education agency. The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2015-16, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$7,820 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,189 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$7,403 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$8,801 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12.
- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a local education agency's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the local education agency that comprise more than 55% of enrollment.
- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every local education agency receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, local education agencies would receive the greater of the Base Grant or the ERT.

For community funded districts, under the new formula, local property tax revenues would be used to offset up to the entire allocation. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

***Local Control Accountability Plans.*** A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year local control and accountability plan ("LCAP"). Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district's budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district's LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the “Collaborative”), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency’s LCAP.

***Attendance and Base Revenue Limit.*** The following table sets forth the District’s actual A.D.A., enrollment and base revenue limit per unit of A.D.A. for fiscal years 2015-16 and 2016-17. The A.D.A. and enrollment numbers reflected in the following table include special education.

**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**Average Daily Attendance, Enrollment and Funded Base Revenue Limit**  
**Fiscal Years 2011-12 Through 2012-13**

| Fiscal Year            | Average Daily Attendance <sup>(1)</sup> | Enrollment | Base Revenue Limit Per Unit of Average Daily Attendance |
|------------------------|---|------------|---|
| 2011-12 <sup>(2)</sup> | 2,260                                   | 2,322      | \$6,374.05  |
| 2012-13 <sup>(3)</sup> | 2,313                                   | 2,374      | \$6,576.05  |

<sup>(1)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year.

<sup>(2)</sup> The District had a 20.602% base revenue limit deficit factor and a 2.24% cost of living adjustment in fiscal year 2011-12, which resulted in a funded base revenue limit of \$5,060.87.

<sup>(3)</sup> The District had a 22.272% base revenue limit deficit factor and a 3.243% cost of living adjustment in fiscal year 2012-13, which resulted in a funded base revenue limit of \$5,111.43.

Source: Millbrae School District.

**Attendance and LCFF.** The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”)), and targeted Base Grant per unit of A.D.A. for fiscal years 2014-15 through 2017-18, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education.

**MILLBRAE SCHOOL DISTRICT**  
**Average Daily Attendance, Enrollment and Targeted Base Grant**  
**Fiscal Years 2014-15 through 2017-18**

| Fiscal Year            |   | A.D.A./Base Grant <sup>(5)</sup> |         |         |              | Enrollment <sup>(4)</sup>       |   |
|------------------------|---|----------------------------------|---------|---------|--------------|---------------------------------|---|
|                        |   | K-3                              | 4-6     | 7-8     | Total A.D.A. | Total Enrollment <sup>(8)</sup> | Unduplicated Percentage of EL/LI Students |
| 2013-14                | A.D.A. <sup>(2)</sup> :                 | 1,011.47                         | 795.04  | 595.60  | 2,402.11     | 2,445                           | 36.93%                                    |
|                        | Targeted Base Grant <sup>(3)</sup> :    | \$7,675                          | \$7,056 | \$7,266 | --           | --                              | --  |
| 2014-15                | A.D.A. <sup>(2)</sup> :                 | 1,010.03                         | 791.09  | 595.49  | 2,396.61     | 2,469                           | 38.67%                                    |
|                        | Targeted Base Grant <sup>(3)(4)</sup> : | \$7,740                          | \$7,116 | \$7,328 | --           | --                              | --  |
| 2015-16 <sup>(1)</sup> | A.D.A. <sup>(2)</sup> :                 | 1,042.51                         | 753.90  | 597.34  | 2,393.75     | 2,431                           | 37.40%                                    |
|                        | Targeted Base Grant <sup>(3)(5)</sup> : | \$7,820                          | \$7,189 | \$7,403 | --           | --                              | --  |
| 2016-17 <sup>(1)</sup> | A.D.A. <sup>(2)</sup> :                 | 1,016.91                         | 790.16  | 563.68  | 2,370.75     | 2,430                           | 37.04%                                    |
|                        | Targeted Base Grant <sup>(3)(6)</sup> : | \$7,820                          | \$7,189 | \$7,403 | --           | --                              | --  |
| 2017-18 <sup>(1)</sup> | A.D.A. <sup>(2)</sup> :                 | 1,014.62                         | 816.17  | 544.27  | 2,375.06     | 2,442                           | 36.49%                                    |
|                        | Targeted Base Grant <sup>(3)(7)</sup> : | \$7,941                          | \$7,301 | \$7,518 | --           | --                              | --  |

<sup>(1)</sup> Figures are projections.

<sup>(2)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year.

<sup>(3)</sup> Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and do not include any supplemental and concentration grants under the LCFF. Such amounts are not expected to be fully funded in fiscal years 2013-14 and 2014-15.

<sup>(4)</sup> Targeted fiscal year 2014-15 Base Grant amounts reflect a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

<sup>(5)</sup> Targeted fiscal year 2015-16 Base Grant amounts reflect a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

<sup>(6)</sup> Targeted fiscal year 2016-17 Base Grant amounts reflect a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

<sup>(7)</sup> Targeted fiscal year 2017-18 Base Grant amounts reflect a 1.55% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

<sup>(8)</sup> Reflects enrollment as of October report submitted to the California Department of Education through CBEDs for the 2013-14 and 2014-15 school years and CALPADS for the 2015-16 school year in each school year. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI Students will be expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment will be based on the two-year average of EL/LI Students 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 Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Millbrae School District.

The District received approximately \$19.61 million in aggregate revenues reported under LCFF sources in fiscal year 2016-17, and estimated that it received approximately \$20.01 million in aggregate revenues under the LCFF in fiscal year 2017-18 (or approximately 85.6% of its general fund revenues in fiscal year 2017-18). Such amount includes supplemental grants estimated to be \$1.23 million in fiscal year 2017-18.

## Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some State equalization aid were commonly referred to as "revenue limit districts," and are now referred to as "LCFF districts." The District is currently an LCFF district although, in a prior year, it was a basic aid/community funded district.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. The District's local property tax revenues currently exceed the amount of State aid that would be allocated under the new formula and, accordingly, the District currently receives only the minimum amount of State aid provided under the LCFF. See "—Allocation of State Funding to School Districts: Local Control Funding Formula" herein for more information.

Local property tax revenues accounted for approximately 53.27% of the District's aggregate revenues reported under LCFF sources for fiscal year 2016-17, and are projected to be approximately \$12.61 million, or 63.02% of total LCFF sources in fiscal year 2017-18.

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

***Effect of Changes in Enrollment.*** Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently.

In an LCFF district such as the District, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid, as described above. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

***Effect of Redevelopment Project Area.*** Under former California law, a city or county could create a redevelopment agency in territory within one or more school districts. Upon formation of a “project area” of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as “tax increment”) belonged to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including school districts, from that time forward. Taxes collected for payment of debt service on school bonds was not affected or diverted by the operation of a redevelopment agency project area. Some school districts negotiated “pass-through” agreements with their local redevelopment agencies, entitling the district to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds). In some cases the pass-through was mandated by statute (in which case it cannot be pledged to pay redevelopment agency bonds).

The Cities of Millbrae and San Bruno each created a redevelopment project area in the District’s boundaries and negotiated pass-through agreements with the District, pursuant to which the District received pass-through payments in Fiscal Year 2016-17 of approximately \$1.44 million. In addition, the District received approximately \$259 thousand in pass-through redevelopment funds for facilities. Due to the elimination of redevelopment agencies, expects to receive additional monies in future years.

## **Other District Revenues**

***Federal Revenues.*** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 2.93% (or approximately \$686,757) of the District’s general fund budgeted revenues for fiscal year 2017-18.

***Other State Revenues.*** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District has budgeted other State revenues to comprise approximately 7.36% (or approximately \$1.72 million) of the District’s general fund projected revenues for fiscal year 2017-18. A significant portion of such other State revenues are amounts the District expects to receive from State lottery funds, which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District’s State lottery revenue is projected at approximately \$0.47 million for fiscal year 2017-18.

***Other Local Revenues.*** In addition to *ad valorem* property taxes, the District receives additional local revenues from items such as interest earnings and other local sources. Other local revenues comprise approximately 4.06% (or approximately \$0.95 million) of the District’s general fund budgeted revenues for fiscal year 2017-18.

## **Employment**

The largest part of each school district’s general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits.

For fiscal year 2016-17, the total certificated and classified payrolls were approximately \$11.46 million and \$3.02 million, respectively. The District projects total certificated and classified payrolls to be approximately \$11.83 million and \$3.15 million, respectively, in fiscal year 2017-18.

As of June 30, 2017, the District had approximately 202.05 full-time equivalent employees (FTE), which included 128.10 FTE certificated (credentialed teaching) employees, 57.95 FTE classified (non-instructional) employees, 10 certificated management employees, 1 classified management employees, and 5 supervisory/other personnel. These employees, except management and some part-time employees, are represented by the bargaining units set forth below.

**MILLBRAE SCHOOL DISTRICT**  
**Labor Organizations**

| <u>Labor Organization</u>                                      | <u>Represented Employees</u> | <u>Contract Expiration</u> |
|--|------------------------------|----------------------------|
| Millbrae Education Association                                 | 127.0                        | June 30, 2018              |
| California School Employees Association, Millbrae Chapter #561 | 58.7                         | June 30, 2017*             |
| Total  | <u>185.7</u>                 |                            |

\* Contract is currently under negotiation.  
Source: Millbrae School District.

**Retirement Benefits**

The District participates in retirement plans with CalSTRS, which covers all full-time certificated District employees, and CalPERS, which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

**CalSTRS.** Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, teachers contributed 8% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the teacher and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to systemwide unfunded liability resulting from recent benefit enhancements.

As of June 30, 2016, an actuarial valuation (the “2016 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$96.7 billion, an increase of approximately \$20.5 million from the June 30, 2015 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2016, June 30, 2015 and June 30, 2014, based on the actuarial assumptions, were approximately 63.7%, 68.5% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2016 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” a 7.25% investment rate of return for measurements as of June 30, 2016 and an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2016 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPPRA (as defined herein). See “—California Public Employees’ Pension Reform Act of 2013” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market

performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

As indicated above, there was no required contribution from teachers, schools districts or the State to fund the unfunded actuarial liability for the CalSTRS defined benefit program and only the State legislature can change contribution rates. The 2016 CalSTRS Actuarial Valuation stated that the aggregate contribution rate as of June 30, 2017, inclusive of an equivalent rate contribution of 10.219% from members, 8.000% from employers relating to the base rate, 0.250% from employers based on the sick leave rate, 10.096% from employers based on the supplemental rate, 1.881% from the State based on the base rate and 4.021% from the State based on the supplemental rate is equivalent to 34.467%.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate would increase by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 8.80%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

Pursuant to Assembly Bill 1469, school district's contribution rates will increase in accordance with the following schedule:

| Effective Date<br>(July 1) | School District<br>Contribution Rate |
|----------------------------|--------------------------------------|
| 2014                       | 8.88%                                |
| 2015                       | 10.73                                |
| 2016                       | 12.58                                |
| 2017                       | 14.43                                |
| 2018                       | 16.28                                |
| 2019                       | 18.13                                |
| 2020                       | 19.10                                |

Source: Assembly Bill 1469.

The following table sets forth the District's total employer contributions to CalSTRS for fiscal years 2012-13 through 2015-16, the estimated contribution for fiscal year 2016-17 and the budgeted contribution for fiscal year 2017-18.

**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**Contributions to CalSTRS for Fiscal Years 2012-13 through 2017-18**

| Fiscal Year            | Contribution             |
|------------------------|--------------------------|
| 2012-13                | \$ 673,342               |
| 2013-14                | 771,895                  |
| 2014-15                | 758,596                  |
| 2015-16                | 1,820,934 <sup>(1)</sup> |
| 2016-17 <sup>(2)</sup> | 2,081,456 <sup>(1)</sup> |
| 2017-18 <sup>(3)</sup> | 2,783,514 <sup>(1)</sup> |

<sup>(1)</sup> [Such amount includes payments made by the State on behalf of the District.]

<sup>(2)</sup> Estimated.

<sup>(3)</sup> Budgeted.

Source: Millbrae School District.

The District's total employer contributions to CalSTRS for fiscal years 2011-12 through 2014-15 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years. The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

**CalPERS.** All qualifying classified employees of K-12 districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

The CalPERS Finance and Administration Committee has reported that the CalPERS Schools Actuarial Valuation as of June 30, 2016, which is expected to be released in late 2017, will indicate that the funded ratio as of June 30, 2016 is approximately 71.9% on a market value of assets basis. According to the CalPERS Schools Pool Actuarial Valuation as of June 30, 2015, the CalPERS Schools plan had a funded ratio of 77.5% on a market value of assets basis. The funded ratio, on a market value basis, as of June 30, 2014, June 30, 2013, June 30, 2012, June 30, 2011 and June 30, 2010 was 86.6%, 80.5%, 75.5%, 78.7% and 69.5%, respectively. According to the actuarial valuation as of June 30, 2014, the latest increase in the funded ratio was mainly due to the investment return for 2013-14 being greater than expected. On April 17 2013, the CalPERS Board of Administration approved a recommendation changing the CalPERS amortization and smoothing policies intended to reduce volatility in employer contribution rates. Beginning with the June 30, 2015 valuation, CalPERS employs an amortization and smoothing policy that will apportion all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period (as compared to the previous policy of spreading investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period). In November 2015, the CalPERS Board of Administration approved a proposal pursuant to which the discount rate would be reduced by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the then-current



discount rate of 7.5% by at least four percentage points. In December 2016, the CalPERS Board of Administration voted to lower the discount rate from 7.5% to 7.375% for fiscal year 2017-18, 7.25% for fiscal year 2018-19, and 7.0% beginning fiscal year 2019-20. The new discount rates will take effect beginning July 1, 2017 for the State and July 1, 2018 for school districts. The change in the assumed rate of return is expected to result in increases in the District's normal costs and unfunded actuarial liabilities.

In April 2016, CalPERS approved an increase to the contribution rate for school districts from 11.847% during fiscal year 2015-16 to 13.888% during fiscal year 2016-17. In February of 2014, the CalPERS Board of Administration adopted actuarial demographic assumptions that take into account greater life expectancies of public employees. Such assumptions are expected to increase costs for the State and public agency employers (including school districts), which costs will be amortized over 20 years and phased in over three years beginning in fiscal year 2014-15 for the State and amortized over 20 years and phased in over five years beginning in fiscal year 2016-17 for the employers. CalPERS applied the assumptions beginning with the June 30, 2015 valuation for the schools pool, which was used to establish employer contribution rates for fiscal year 2016-17. CalPERS estimates that the new demographic assumptions could cost public agency employers up to 9% of payroll for safety employees and up to 5% of payroll for miscellaneous employees at the end of the five year phase-in period. To the extent, however, that future experiences differ from CalPERS' current assumptions, the required employer contributions may vary. In April 2017, CalPERS adopted an employer contribution rate of 15.531% for the schools pool and a member contribution rate of 6.5% for school employees subject to PEPRA for the period of July 1, 2017 to June 30, 2015.

The following table sets forth the District's total employer contributions to CalPERS for fiscal years 2012-13 through 2015-16, the estimated contribution for fiscal year 2016-17 and the budgeted contribution for fiscal year 2017-18.

**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**Contributions to CalPERS for Fiscal Years 2012-13 through 2016-17**

| Fiscal Year            | Contribution |
|------------------------|--------------|
| 2012-13                | \$262,721    |
| 2013-14                | 273,084      |
| 2014-15                | 268,285      |
| 2015-16                | 348,868      |
| 2016-17 <sup>(1)</sup> | 409,672      |
| 2017-18 <sup>(2)</sup> | 485,777      |

<sup>(1)</sup> Estimated.

<sup>(2)</sup> Budgeted.

Source: Millbrae School District.

The District's total employer contributions to CalPERS for fiscal years 2011-12 through 2014-15 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "Governor's Pension Reform" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive

annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

***Governor's Pension Reform.*** 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. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$110,100 for 2012, 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 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.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 11 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

***GASB 67 and 68.*** In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities are currently typically included as notes to the government's financial statements); (ii) full pension costs would be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates would be required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities would be required to be used for certain purposes of the financial statements, which generally would increase pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15. See Note 1 and Note 9 to the District's financial statements attached hereto as APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016."

## **Post-Employment Benefits**

In addition to the pension benefits described above, the District provides post-retirement healthcare benefits for eligible employees who retire early and certain of their dependents. The amount and length of these benefits depends on a variety of factors, including age at retirement, length of service, and status as a certificated, classified or management employee.

Beginning in Fiscal Year 2008-09, the District was required to implement Governmental Accounting Standards Board Statement No. 45 ("GASB 45") which directs certain changes in accounting for other post-employment benefits ("OPEB") in order to quantify a government agency's current liability for future benefit payments. GASB 45 is directed at quantifying and disclosing OPEB obligations, and does not impose any requirement on public agencies to fund such obligations.

On April 20, 2017, Total Compensation Systems, Inc., Agoura Hills, California (the "Actuarial Consultant"), completed a study of the District's outstanding post-employment benefit obligations as of February 1, 2017. The report calculates the value of all future benefits already earned by current retirees and current employees, known as the "actuarial accrued liability" ("AAL") and the excess of the AAL over assets irrevocably committed to provide retiree health benefits, known as the "unfunded actuarial accrued liability" ("UAAL").

As of February 1, 2017, the District had an UAAL of approximately \$4,792,019. As of February 1, 2017, eligible participants include 92 retirees and 216 active employees. The UAAL and the AAL are actuarial estimates that depend on a variety of assumptions about future events such as health care costs and beneficiary mortality. Every year, active employees earn additional future benefits, an amount known as the "normal cost", which is added to the AAL. The report estimated the normal cost at \$209,153 for the year beginning February 1, 2017. The District deposits amounts designated for OPEB in Fund 20, the Special Reserve for Postemployment Benefits ("Fund 20"). Fund 20 is not an irrevocable trust and amounts on deposit therein must be transferred back to the General Fund for expenditure.

The annual required contribution ("ARC") is the amount required if the District were to fund each year's normal cost plus an annual amortization of the UAAL, assuming the UAAL will be fully funded over a 30 year period. If the amount budgeted and funded in any year is less than the ARC, the difference reflects the amount by which the UAAL is growing. As of February 1, 2017, the ARC was determined to be \$464,470. In 2016-17, the District estimates that it funded \$252,858 in pay-as-you-go expenditures. The District's 2017-18 budgeted pay-as-you-go expenditures for post-retirement benefits is \$261,574.

***Accrued Vacation and other Obligations.*** The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2017 was \$182,679.

See APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Notes 1 and 6.

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## **Summary of District Revenues and Expenditures**

The following table summarizes the District's actual or budgeted general fund revenue, expenditures and fund balances from Fiscal Years 2011-12 through 2015-16. See also APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016" for the District's audited financial statements for the year ending June 30, 2016.

The District is required by State law and regulation to maintain various reserves. The District is required to maintain a reserve for economic uncertainties in the amount of 3% of its total (adjusted) general fund expenditures, based on its total student attendance. Pursuant to the Board of Education's budget policy, the Board of Education intends to maintain a minimum unassigned fund balance, which includes a reserve for economic uncertainties equal to at least two months of general fund operating expenditures, or 17% of general fund expenditures and other financing uses. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 2" herein. The District has budgeted an unrestricted general fund reserve of approximately 15%, or approximately \$3.67 million for the fiscal year ended June 30, 2018.

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**MILLBRAE SCHOOL DISTRICT**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2011-12 through 2015-16**

|  | <b>Fiscal Year<br/>2011-12</b> | <b>Fiscal Year<br/>2012-13</b> | <b>Fiscal Year<br/>2013-14</b> | <b>Fiscal Year<br/>2014-15</b> | <b>Fiscal Year<br/>2015-16<sup>(2)</sup></b> |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--|
| <b>REVENUES</b>  |                                |                                |                                |                                |  |
| Revenue limit sources / LCFF sources <sup>(1)</sup>      | \$12,667,493                   | \$13,053,784                   | \$15,609,300                   | \$17,216,885                   | \$18,842,806                                 |
| Federal sources  | 995,216                        | 722,770                        | 693,098                        | 731,503                        | 685,895                                      |
| Other state sources                                      | 2,030,945                      | 2,037,464                      | 1,205,223                      | 1,286,037                      | 2,957,856                                    |
| Other local sources                                      | 653,781                        | 928,472                        | 1,643,968                      | 1,572,608                      | 1,193,893                                    |
| <b>Total Revenues</b>                                    | <b>16,347,435</b>              | <b>16,742,490</b>              | <b>19,151,589</b>              | <b>20,807,033</b>              | <b>23,680,450</b>                            |
| <b>EXPENDITURES</b>                                      |                                |                                |                                |                                |  |
| Current  |                                |                                |                                |                                |  |
| Instruction  | 10,231,307                     | 11,066,324                     | 11,786,933                     | 13,165,731                     | 14,259,337                                   |
| Instruction-Related Services                             |                                |                                |                                |                                |  |
| Instructional supervision and administration             | 369,811                        | 355,137                        | 427,362                        | 520,457                        | 555,390                                      |
| Instructional library, media and technology              | 31,375                         | 8,065                          | 3,653                          | 3,653                          | 9,655  |
| School site administration                               | 968,987                        | 1,059,639                      | 1,058,059                      | 1,298,895                      | 1,371,187                                    |
| Pupil services   |                                |                                |                                |                                |  |
| Home-to-School transportation                            | 283,527                        | 212,606                        | 143,538                        | 205,684                        | 184,397                                      |
| Food services  | --                             | --                             | 100                            | --                             | --   |
| All other pupil services                                 | 961,218                        | 1,206,308                      | 1,233,737                      | 1,544,179                      | 1,456,395                                    |
| General administration                                   |                                |                                |                                |                                |  |
| Centralized data processing                              | 165,255                        | 177,816                        | 183,643                        | 192,112                        | 240,306                                      |
| All other general administration                         | 998,499                        | 1,132,940                      | 1,209,089                      | 1,215,585                      | 1,246,036                                    |
| Plant services   | 1,435,643                      | 1,485,574                      | 1,512,457                      | 1,693,954                      | 1,870,649                                    |
| Facilities acquisition and maintenance                   | --                             | --                             | --                             | --                             | 24,543                                       |
| Community services                                       | 42,590                         | 46,998                         | 46,998                         | 53,190                         | 53,311                                       |
| Transfers to other agencies                              | 957,703                        | 818,139                        | 1,086,299                      | 795,490                        | 368,709                                      |
| Debt service   |                                |                                |                                |                                |  |
| Principal  | 25,981                         | 62,715                         | 42,733                         | 44,334                         | 45,995                                       |
| Interest and other                                       | --                             | 4,006                          | 6,487                          | 5,246                          | 3,585  |
| <b>Total Expenditures</b>                                | <b>16,471,896</b>              | <b>17,636,267</b>              | <b>18,741,448</b>              | <b>20,738,510</b>              | <b>21,689,495</b>                            |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <b>(124,461)</b>               | <b>(893,777)</b>               | <b>410,141</b>                 | <b>68,523</b>                  | <b>1,990,955</b>                             |
| <b>Other Financing Sources (Uses)</b>                    |                                |                                |                                |                                |  |
| Transfers in   | 57,088                         | 569,776                        | 304,377                        | 69,056                         | 54,182                                       |
| Other Sources  | --                             | 226,092                        | --                             | --                             | --   |
| Transfers out  | (53,559)                       | (309,802)                      | (189,860)                      | (378,674)                      | (50,000)                                     |
| <b>Net Financing Sources (Uses)</b>                      | <b>3,529</b>                   | <b>486,066</b>                 | <b>114,517</b>                 | <b>(309,618)</b>               | <b>4,182</b>                                 |
| <b>Net Change In Fund Balance</b>                        | <b>(120,932)</b>               | <b>(407,711)</b>               | <b>524,658</b>                 | <b>(241,095)</b>               | <b>1,995,137</b>                             |
| <b>Fund Balance, July 1</b>                              | <b>4,570,418</b>               | <b>4,449,485</b>               | <b>4,041,774</b>               | <b>4,566,432</b>               | <b>4,325,337</b>                             |
| <b>Prior Period Adjustment</b>                           |                                |                                |                                |                                |  |
| <b>Fund Balance, June 30</b>                             | <b>\$4,449,486</b>             | <b>\$4,041,774</b>             | <b>\$4,566,432</b>             | <b>\$4,325,337</b>             | <b>\$6,320,474</b>                           |

<sup>(1)</sup> The LCFF was implemented beginning in fiscal year 2013-14.

<sup>(2)</sup> [Includes Special Reserve Fund for Other than Capital Outlay (Fund 17) and Special Reserve Fund for Post-Employment Benefits (Fund 20).]

Sources: Millbrae School District Audited Financial Reports for fiscal years 2011-12 through 2015-16.

## District Debt Structure

Certain of the District's outstanding indebtedness is described below. For a complete discussion of the District's outstanding indebtedness as of June 30, 2016, see APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 6.

**General Obligation Bonds.** On November 4, 2008, the voters of the District approved a bond proposition authorizing the issuance of \$30 million of bonds of the District. On April 17, 2009, the District issued its 2009 General Obligation Bonds (Election of 2008, Series A) (Bank Qualified) (the "2009 Series A Bonds") in the principal amount of \$12,000,000, with a stated maturity date of July 1, 2033, of which \$[Outstanding Balance] is outstanding as of [\_\_\_\_], 2017.

On April 19, 2011, the District issued its 2011 General Obligation Bonds (Election of 2008, Series B) Series B-1 (Federally Taxable Qualified School Construction Bonds) (the "2011 Series B-1 Bonds") in the aggregate principal amount of \$7,660,000, with a stated maturity date of July 1, 2025, of which \$[Outstanding Balance] is outstanding as of [\_\_\_\_], 2017 and its 2011 General Obligation Bonds (Election of 2008, Series B) Series B-2 (Tax-Exempt Current Interest Bonds/Tax-Exempt Capital Appreciation Bonds) (the "2011 Series B-2 Bonds") in the aggregate principal amount of \$10,339,527, with a stated maturity date of July 1, 2041, of which \$[Outstanding Balance] is outstanding as of [\_\_\_\_], 2017. The 2011 Series B-1 Bonds are designated as "qualified school construction bonds" under Section 54F of the Code. Accordingly, the County Treasurer, on behalf of the District, receives a direct subsidy from the federal government under Section 6431 of the Code. The 2011 Series B-2 Bonds are payable from and secured by *ad valorem* taxes which are to be assessed in amounts sufficient to pay principal of and interest on the 2011 Series B-2 Bonds when due. Qualified school construction bonds, such as the 2011 Series B-1 Bonds, are currently subject to sequestration budget cuts which reduce the amount available for direct subsidies. The direct subsidy received from the U.S. Treasury will be deposited in the Interest and Sinking Fund of the District and applied to pay a portion of the interest on the 2011 Series B-1 Bonds.

On November 8, 2011, the voters of the District approved a bond proposition authorizing the issuance of \$30,000,000 of bonds of the District. On May 8, 2012, the District issued its General Obligation Bonds (Election of 2011, Series 2012), in the aggregate principal amount of \$20,000,000, with a stated maturity date of July 1, 2042 of which \$[Outstanding Balance] remains outstanding as of [\_\_\_\_], 2017. On December 11, 2013, the District issued its General Obligation Bonds (Election of 2011, Series 2013), in the aggregate principal amount of \$10,000,000 with a stated maturity date of July 1, 2042, of which \$[Outstanding Balance] remains outstanding as of [\_\_\_\_], 2017.

On August 11, 2016, the District issued \$8,720,000 of its 2016 General Obligation Refunding Bonds (the "2016 Refunding Bonds") to refund a portion of the outstanding 2009 Series A Bonds.

The following summarizes all general obligation bonds outstanding as of [\_\_\_\_], 2017:

| Bond  | Issue Date | Maturity Date | Interest Rate  | Original Issue   | Outstanding as of [____], 2017 |
|---|------------|---------------|----------------|------------------|--------------------------------|
| Election of 2008, Series A                  | 4/21/2009  | 7/1/2033      | 4.125 – 5.000% | \$12,000,000     | \$[__]                         |
| Election of 2008, Series B-1                | 4/19/2011  | 7/1/2025      | 5.400 – 6.157  | 7,660,000        | [__]                           |
| Election of 2008, Series B-2 <sup>(1)</sup> | 4/19/2011  | 7/1/2041      | 0.000 – 6.000  | 10,339,527       | [__]                           |
| Election of 2011, Series 2012               | 5/8/2012   | 7/1/2042      | 2.000 – 4.000  | 20,000,000       | [__]                           |
| Election of 2011, Series 2013               | 12/11/2013 | 7/1/2042      | 4.000 – 5.000  | 10,000,000       | [__]                           |
| 2016 General Obligation Refunding Bonds     | 8/11/2016  | 7/1/2031      | 2.000 – 4.000  | <u>8,720,000</u> | [__]                           |
| Total                                       |            |               |                |                  | \$[__]                         |

<sup>(1)</sup> The District expects to apply a portion of the proceeds of the Refunding Bonds to refund a portion of the 2011 Series B-2 Bonds.

Sources: Millbrae School District.

The District has no other general obligation bonds outstanding. See “DEBT SERVICE” in the front portion of this Official Statement.

***Certificates of Participation.*** The District has caused the Millbrae School District Financing Corporation to execute and deliver \$1,208,893.14 in certificates of participation in a Lease Agreement, dated as of November 1, 2008 (the “Lease Agreement”), by and between the District and the Millbrae School District Financing Corporation. The proceeds of the certificates of participation were used by the District to make improvements to athletic fields at certain District school sites. The District is obligated to make semiannual lease payments pursuant to the Lease Agreement each February 1 and August 1 through August 1, 2023, and the District’s annual lease rental obligation is approximately \$120,000. The District’s rental under the Lease Agreement is payable from any available funds of the District, although the District intends to use funds it receives from the successor entity to the Millbrae Redevelopment Agency to make the required payments in each year.

***Capital Leases.*** The District has several capital lease agreements for office equipment. The minimum lease payments for the capital leases consisted of the following as of the end of the fiscal years 2014-15 through 2016-17:

| Year Ending June 30, | Principal        | Interest       | Total            |
|----------------------|------------------|----------------|------------------|
| 2015                 | \$47,719         | \$1,861        | \$49,580         |
| 2016                 | 47,719           | 1,861          | 49,580           |
| 2017                 | 47,719           | 1,861          | 49,580           |
| Total                | <u>\$143,157</u> | <u>\$5,583</u> | <u>\$148,740</u> |

Source: Millbrae School District.

***Tax and Revenue Anticipation Notes.*** Because District revenues from local property taxes and State apportionments are received at irregular intervals throughout the year, while expenditures tend to be incurred on a regular monthly basis, the District has found it necessary in certain years to borrow for short-term cash needs by issuance of tax and revenue anticipation notes (“TRANs”). TRANs issued by the District are a general obligation of the District, payable from the District’s general fund and any other lawfully available moneys, but for which the District has no taxing authority. The last fiscal year for which the District issued TRANs was fiscal year 1999-2000. [The District does not expect to issue

TRANS in fiscal year 2017-18. However, the District cannot guarantee it will not issue TRANS in future fiscal years to supplement cash flow when necessary.] [District to confirm or update.]

### **Insurance, Risk Pooling and Joint Powers Arrangements**

The District participates in the San Mateo County Schools Insurance Group (SMCSIG), a joint venture under a Joint Powers Agreement among 24 local school districts in the County of San Mateo. The District purchases comprehensive general liability, property damage, and workers compensation coverage from SMCSIG, in coverage amounts comparable to other school districts participating in SMCSIG. For property damage, the District has a deductible of \$5,000 per occurrence; SMCSIG covers damage up to \$250,000 via a self-insured retention, and purchases excess property insurance in the commercial market to a policy limit of \$1 billion per occurrence through Public Entity Property Insurance Program (PEPIP). For liability insurance, the District has a deductible of \$1,500 per occurrence; SMCSIG covers liability up to \$250,000 via a self-insured retention, purchases excess general liability coverage through CSAC-EIA to a policy limit of \$5 million per occurrence, and purchases additional excess liability coverage to \$25 million per occurrence through Schools Excess Liability Fund (SELF). The District purchases workers' compensation coverage in the commercial market through SMCSIG at levels required by statute.

The District shares SMCSIG's surpluses and deficits in proportion to its participation in SMCSIG. The District's potential liabilities under its arrangement with SMCSIG are described in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 8. The District does not directly bear liability for the losses of other members of SMCSIG; however in the event of numerous large local losses, SMCSIG's self-insured retention fund could be exhausted, and member districts such as the District could be required to make further contributions to cover member claims.

The District is also a member of the School Project for Utility Rate Reduction (SPURR) joint powers authority, through which the District receives certain utility services. The utility services from SPURR totaled \$32,572.74 for the fiscal year ended June 30, 2017. The District is not a member of any other joint powers agencies or authorities.

See APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Note 8.

### **Charter Schools**

Charter schools operate as autonomous public schools, under charter from a school district, county office of education, or the State Board of Education, with minimal supervision by the local school district. Charter schools receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is also required to accommodate charter school students originating in the District in facilities comparable to those provided to regular District students.

There are currently no charter schools operating in, or under a charter provided by, the District.

### **Environmental Issues**

An environmental analysis of the District school sites performed in 2010 detected the presence of chlorinated pesticides at Lomita Park Elementary School ("Lomita Park"), Spring Valley Elementary School ("Spring Valley"), and Taylor Middle School ("Taylor Middle"). The District has reached an



oversight agreement, memorialized in the form of a Land Use Covenant (the “Agreement”), with the California Department of Toxic Substances Control (“DTSC”) to address these findings. The Agreement requires the District to obtain DTSC approval prior to any construction at the Lomita Park at the Lomita Park Elementary School site, to refrain from certain other activities that would significantly disturb the soil at the site, and to certify annually that it is in compliance with the Agreement. The District has made the certification each year since the agreement was reached and currently has no plans to make any material changes to the Lomita Park site. The Spring Valley and Taylor Middle school sites are not subject to the agreement because insufficient levels of the pesticides were found at those sites to require continuing DTSC oversight. The District can give no assurance that material obligations or liabilities under environmental laws will not arise in the future which may have a material adverse effect on the District, or that the District will not be subject to third-party claims relating to environmental contamination or compliance.

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## **SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS**

### **District Budget Process and County Review**

State law requires school districts to adopt a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the San Mateo County Superintendent of Schools.

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than August 15. The county superintendent is required to 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 with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file it with the county superintendent no later than September 8. Pursuant to State law, the county superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

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

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) 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 fiscal year. The county superintendent 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 is deemed 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 two subsequent 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 in that fiscal year or in the next

succeeding year. [In the last five fiscal years, the District has not received a qualified or negative certification in connection with its interim financial reports.] [District to confirm or update.]

For school districts under fiscal distress, the county superintendent of schools is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent of schools, receive an emergency appropriation from the State, the acceptance of which constitutes an agreement to submit to management of the school district by a Superintendent appointed administrator.

In the event the State elects to provide an emergency appropriation to a school district, such appropriation may be accomplished through the issuance of “State School Fund Apportionment Lease Revenue Bonds” to be issued by the California Infrastructure and Economic Development Bank, on behalf of the school district. State law provides that so long as such bonds are outstanding, the recipient school district (via its State-appointed administrator) cannot file for bankruptcy.

The following table sets forth the District's adopted general fund budgets for fiscal years 2015-16 through 2017-18 and estimated actuals for fiscal years 2015-16 through 2016-17.

**MILLBRAE SCHOOL DISTRICT**  
**(San Mateo County, California)**  
**General Fund Budgets for Fiscal Years 2015-16 through 2016-17**  
**and Estimated Actuals for Fiscal Years 2015-16 through 2017-18<sup>(1)</sup>**

|  | <b>2015-16<br/>Original Adopted<br/>Budget<sup>(2)</sup></b> | <b>2015-16<br/>Estimated<br/>Actuals<sup>(2)</sup></b> | <b>2016-17<br/>Original Adopted<br/>Budget<sup>(2)</sup></b> | <b>2016-17<br/>Estimated<br/>Actuals<sup>(2)</sup></b> | <b>2017-18 Original<br/>Adopted Budget<sup>(2)</sup></b> |
|--|--|--|--|--|--|
| <b>REVENUES</b>  |  |  |  |  |  |
| Revenue Limit / LCFF Sources <sup>(4)</sup>                      | \$18,915,285.00  | \$18,836,455.00  | \$ 19,548,328.00   | \$19,611,040.00  | \$20,010,522.00  |
| Federal Revenue  | 687,828.00   | 724,471.00   | 677,479.00   | 731,706.00   | 686,757.00   |
| Other State Revenue  | 2,009,940.00   | 2,750,742.00   | 1,928,262.00   | 2,166,940.00   | 1,718,991.00   |
| Other Local Revenue  | 982,489.00   | 1,342,607.00   | 1,007,147.00   | 1,288,230.00   | 949,218.00   |
| <b>TOTAL REVENUES</b>  | <b>\$22,595,542.00</b>                                       | <b>\$23,654,275.00</b>                                 | <b>\$ 23,161,216.00</b>                                      | <b>\$23,797,916.00</b>                                 | <b>\$23,365,488.00</b>                                   |
| <b>EXPENDITURES</b>  |  |  |  |  |  |
| Certificated Salaries  | 11,029,165.00  | 10,989,109.00  | 11,777,558.00  | 11,637,159.00  | 11,832,174.00  |
| Classified Salaries  | 2,734,157.00   | 2,954,784.00   | 3,168,637.00   | 3,040,327.00   | 3,153,616.00   |
| Employee Benefits  | 4,089,525.00   | 4,506,672.00   | 5,151,036.00   | 5,100,941.00   | 5,818,986.00   |
| Books and Supplies   | 821,087.00   | 977,577.00   | 1,309,252.00   | 1,614,551.00   | 507,883.00   |
| Services, Other Operating Expenses                               | 2,404,909.00   | 2,576,221.00   | 2,208,949.00   | 3,053,676.00   | 2,200,129.00   |
| Capital Outlay   | -  | 18,262.00  | 0.00   | 8,916.00   | 0.00   |
| Other Outgo (excluding Direct<br>Support/Indirect Costs)         | 547,680.00   | 443,429.00   | 388,602.00   | 383,049.00   | 525,345.00   |
| Other Outgo - Transfers of Indirect<br>Costs                     | (37,323.00)  | (40,685.00)  | (36,489.00)  | (36,489.00)  | (36,489.00)  |
| <b>TOTAL EXPENDITURES</b>  | <b>\$21,589,200.00</b>                                       | <b>22,425,369.00</b>                                   | <b>\$23,967,545.00</b>                                       | <b>\$24,802,130.00</b>                                 | <b>\$24,001,644.00</b>                                   |
| <b>EXCESS (DEFICIENCY) OF<br/>REVENUES OVER<br/>EXPENDITURES</b> | <b>1,006,342.00</b>  | <b>1,228,906.00</b>                                    | <b>(806,329.00)</b>  | <b>(1,004,214.00)</b>                                  | <b>(636,156.00)</b>                                      |
| <b>OTHER FINANCING SOURCES<br/>(USES)</b>                        |  |  |  |  |  |
| Inter-fund Transfers In  | 35,000.00  | 48,090.00  | 45,000.00  | 147,466.00   | 81,068.00  |
| Inter-fund Transfers Out   | (360,000.00)   | (50,000.00)  | (50,000.00)  | 50,000.00  | 50,000.00  |
| <b>TOTAL, OTHER FINANCING<br/>SOURCES (USES)</b>                 | <b>(325,000.00)</b>  | <b>(1,910.00)</b>                                      | <b>(5,000.00)</b>  | <b>97,466.00</b>                                       | <b>31,068.00</b>   |
| <b>NET INCREASE (DECREASE)<br/>IN FUND BALANCE</b>               | <b>681,342.00</b>  | <b>1,226,996.00</b>                                    | <b>(811,329.00)</b>  | <b>(906,748.00)</b>                                    | <b>(605,088.00)</b>                                      |
| <b>BEGINNING BALANCE,<br/>as of July 1</b>                       | <b>1,640,131.36</b>  | <b>2,230,233.42</b>                                    | <b>3,457,229.42</b>  | <b>4,215,766.48</b>                                    | <b>3,309,018.48</b>                                      |
| <b>ENDING BALANCE<br/>as of June 30</b>                          | <b>\$2,321,473.36</b>  | <b>\$3,457,229.42</b>                                  | <b>\$2,645,900.42</b>  | <b>\$3,309,018.48</b>                                  | <b>\$2,703,930.48</b>                                    |
| <b>Unrestricted Balance</b>                                      | <b>\$2,321,472.57</b>  | <b>\$3,276,845.47</b>                                  | <b>\$2,465,516.47</b>  | <b>\$3,170,006.82</b>                                  | <b>\$2,703,930.82</b>                                    |
| <b>Restricted Balance</b>  | <b>0.79</b>  | <b>180,383.95</b>                                      | <b>180,383.95</b>  | <b>139,011.66</b>                                      | <b>(0.34)</b>  |

<sup>(1)</sup> Totals may not add due to rounding.

<sup>(2)</sup> Figures are projections.

<sup>(3)</sup> Actual amounts reported in this table are for the District's general fund only and do not further agree with the amounts reported on the District's Statement of Revenues, Expenditures, and Changes in Fund Balances because amounts in such statements include the financial activity of the Adult Education Fund, Deferred Maintenance Fund and Special Reserve Fund for Other than Capital Outlay Projects in accordance with the fund type definitions promulgated by GASB Statement No. 54.

<sup>(4)</sup> The LCFF was implemented beginning in fiscal year 2013-14.

Source: Millbrae School District adopted general fund budgets for fiscal years 2015-16 through 2017-18; estimated actuals for fiscal year 2015-16 through 2016-17.

## **Significant Accounting Policies and Audited Financial Reports**

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2016, which are included as APPENDIX B.

Chavan & Associates, LLP, Campbell, California, serves as independent auditor to the District and its report for Fiscal Year Ended June 30, 2016, is attached hereto as APPENDIX B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit excerpts herein that there has been no material change in the financial condition of the District since the audit was concluded.

The final (unaudited) statement of receipts and expenditures for each Fiscal Year ending June 30 is required by State law to be approved by the District's Board of Education by September 15, and the audit report must be filed with the San Mateo County Superintendent of Schools and State officials by December 15 of each year. The District is required by law to adopt its audited financial statements following a public meeting to be conducted no later than January 31 following the close of each fiscal year.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS**

### **Limitations on Revenues**

**Article XIII A of the California Constitution.** Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast 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. The tax for payment of the District's bonds approved at the 2008 election falls within the exception for bonds approved by a 55% vote of voters voting on the proposition.

Section 2 of Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the Fiscal Year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. 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) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the District.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

***Article XIII C and Article XIII D of the California Constitution.*** On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer and tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes or to otherwise interfere with performance of the duty of the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the United States Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Refunding Bonds.

The interpretation and application of Proposition 218 continues to be considered and 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.

## **Expenditures and Appropriations**

***Article XIII B of the California Constitution.*** In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIII B of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” exclude tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district’s revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. If the State’s aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State’s contribution to school and college districts.

In Fiscal Year 2016-17, the District had an appropriations limit of \$17,952,313, and estimates an appropriations limit in 2017-18 of \$18,713,412.

***Future Initiatives.*** Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 98 and 111, were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District’s ability to expend revenues.

**APPENDIX B**

**FINANCIAL STATEMENTS OF THE DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



## **APPENDIX C**

### **PROPOSED FORM OF OPINION OF BOND COUNSEL**

[To Come]

## **APPENDIX D**

### **FORM OF CONTINUING DISCLOSURE CERTIFICATE**

[To Come]

## **APPENDIX E**

### **SAN MATEO COUNTY INVESTMENT POLICIES AND PRACTICES AND INVESTMENT REPORTS**

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#### **DESCRIPTION OF INVESTMENT POOL**

*The following information has been furnished by the Office of the Treasurer-Tax Collector, County of San Mateo. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the County Treasurer and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Treasurer-Tax Collector, 555 County Center, 1st Floor, Redwood City, California 94063.*

**COUNTY OF SAN MATEO  
SUMMARY OF INVESTMENTS**

*See following page.*

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The information in this APPENDIX F has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Refunding Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Refunding Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, “Securities” means the Refunding Bonds, “Issuer” means the District, and “Agent” means the Paying Agent.*

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

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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