

## PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 12, 2017

### NEW ISSUE—BOOK-ENTRY ONLY

### **RATING:**

Moody's: "\_\_\_\_"

See "RATING" herein.

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel that the Bonds are "qualified tax-exempt obligations" under section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In addition, in the opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS" herein.



**\$6,000,000\***  
**SYLVAN UNION SCHOOL DISTRICT**  
**(Stanislaus County, California)**  
**General Obligation Bonds**  
**Election of 2006, Series C (2017)**

### **Dated: Date of Delivery**

### **Due: August 1, as shown on the inside cover**

The \$6,000,000\* Sylvan Union School District (Stanislaus County, California) General Obligation Bonds, Election of 2006, Series C (2017) (the "Bonds") are being issued by the Sylvan Union School District (the "District") pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code and a resolution of the Board of Trustees of the District. A duly called special municipal election was held in the District on November 7, 2006, and thereafter canvassed pursuant to law. At such election there was submitted to and approved by the requisite fifty-five percent (55%) vote of the qualified electors of the District a question as to the issuance and sale of general obligation bonds of the District to repair, modernize, and upgrade aging school facilities, including technology, infrastructure, and other improvements, construct, expand, furnish and equip school facilities, including acquisition of school sites, completion of new schools and construction of food service facilities (the "Project"), in the maximum aggregate principal amount of \$40,000,000 (the "Authorization"). The Bonds represent the third and last issue under the Authorization and are being issued for the purpose of raising moneys for the Project and other authorized costs. The Bonds will be issued as current interest bonds.

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by Stanislaus County (the "County"). The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* taxes, without limitation as to rate or amount, for the payment of interest on, and principal of, the Bonds upon all property subject to taxation within the District (except certain personal property which is taxable at limited rates), all as more fully described herein under "THE BONDS" and "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Property Taxation System."

The Bonds are issuable in denominations of \$5,000 and any integral multiple thereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2018. See "THE BONDS" herein. The Bonds will be delivered in fully registered form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., as paying agent, to DTC or its nominee, which will in turn remit such payment to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY SYSTEM" herein.

**The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption" herein.**

### **MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS**

SEE THE INSIDE COVER

Bids for the purchase of the Bonds will be received by the District on Tuesday, October 24, 2017, electronically only, through the I-Deal LLC BidCOMP/PARITY® system, until 9:30 A.M., Pacific Daylight time. The Bonds will be sold pursuant to the terms of sale set forth in the Official Notice of Sale, dated October 12 28, 2017.

This cover page contains information for quick reference only. It is not a summary of these issues. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds will be offered when, as and if issued, and received by the purchaser thereof, subject to the approval as to their validity by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, Disclosure Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about November 9, 2017.

October \_\_, 2017

\*Preliminary, subject to change.

**\$6,000,000\***  
**SYLVAN UNION SCHOOL DISTRICT**  
**(Stanislaus County, California)**  
**General Obligation Bonds**  
**Election of 2006, Series C (2017)**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS\***

CUSIP<sup>†</sup> Prefix: \_\_\_\_\_

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP <sup>†</sup> Suffix	Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP <sup>†</sup> Suffix
2018						2028					
2019						2029					
2020						2030					
2021						2031					
2022						2032					
2023						2033					
2024						2034					
2025						2035					
2026						2036					
2027						2037					

\*Preliminary, subject to change.

†Copyright 2017, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the registered owners of the Bonds. Neither the District nor the Underwriter is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

*For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.*

*Use of Official Statement.* This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond or note owner and the District or the Underwriter indicated in this Official Statement.

*No Offering Except by This Official Statement.* No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriter.

*No Unlawful Offers or Solicitations.* This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

*Information in Official Statement.* Certain of the information set forth in this Official Statement has been furnished by sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

*Involvement of Underwriter.* The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a 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.

*Document Summaries.* All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

*No Securities Laws Registration.* The Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Bonds have not been registered or qualified under the securities laws of any state.

*Estimates and Projections.* When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

*Effective Date.* This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the County, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

*Website.* The District maintains a website. Unless specifically indicated otherwise, the information presented on such website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

**THIS PAGE INTENTIONALLY LEFT BLANK**

## TABLE OF CONTENTS

INTRODUCTION .....	1	SECURITY AND SOURCE OF PAYMENT FOR	
The District .....	1	THE BONDS .....	13
Sources of Payment for the Bonds .....	1	General .....	13
Authority for Issue; Purpose of Issue .....	2	Property Taxation System .....	13
Description of the Bonds .....	2	Method of Property Taxation .....	14
Tax Matters .....	2	Assessed Valuations .....	15
Offering and Delivery .....	3	Tax Rates .....	19
Continuing Disclosure .....	3	Tax Levies and Delinquencies .....	20
Other Information .....	3	Teeter Plan .....	21
THE BONDS .....	3	Largest Property Owners .....	22
Authority for Issuance .....	3	Direct and Overlapping Debt .....	22
Purposes of Issuance .....	4	Bonding Capacity .....	24
Security .....	4	INVESTMENT OF DISTRICT FUNDS .....	24
Description of the Bonds .....	5	LEGAL MATTERS .....	25
Payment .....	6	Possible Limitations on Remedies; Bankruptcy .....	25
Redemption .....	6	Legal Opinions .....	27
Defeasance .....	7	TAX MATTERS .....	27
Registration, Transfer and Exchange of Bonds .....	9	MUNICIPAL ADVISOR .....	29
Estimated Sources and Uses of Funds .....	10	CONTINUING DISCLOSURE .....	30
Financing Plan .....	10	LEGALITY FOR INVESTMENT IN	
Debt Service Schedule .....	11	CALIFORNIA .....	30
PAYING AGENT .....	11	ABSENCE OF MATERIAL LITIGATION .....	30
BOOK-ENTRY ONLY SYSTEM .....	12	RATING .....	30
THE DISTRICT .....	12	UNDERWRITING .....	31
General Information .....	12	ADDITIONAL INFORMATION .....	31
Board of Trustees and Administration .....	12	EXECUTION .....	32
APPENDIX A: GENERAL INFORMATION REGARDING THE CITY OF MODESTO AND THE COUNTY			
APPENDIX B: DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION			
APPENDIX C: AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016			
APPENDIX D: COUNTY INVESTMENT POLICY			
APPENDIX E: FORM OF OPINION OF BOND COUNSEL			
APPENDIX F: FORM OF CONTINUING DISCLOSURE CERTIFICATE			
APPENDIX G: BOOK-ENTRY SYSTEM			

**SYLVAN UNION SCHOOL DISTRICT**

605 Sylvan Avenue  
Modesto, California 95350  
(209) 574-5000  
<http://www.sylvan.k12.ca.us/>

**BOARD OF TRUSTEES**

Terriann Zeek, *President*  
Cynthia Lindsey, *Vice President*  
David Collins, *Board Member*  
Jennifer Miyakawa, *Board Member*  
George Rawe, *Board Member*

**DISTRICT ADMINISTRATION**

Debra M. Hendricks, *Superintendent*  
Yvonne Perez, *Assistant Superintendent, Business Services*

**PROFESSIONAL SERVICES**

BOND COUNSEL and DISCLOSURE COUNSEL  
Quint & Thimmig LLP  
*Larkspur, California*

MUNICIPAL ADVISOR  
PFM Financial Advisors, LLC  
*San Francisco, California*

PAYING AGENT, TRANSFER AGENT  
and AUTHENTICATION AGENT  
The Bank of New York Mellon Trust Company, N.A.  
*Dallas, Texas*

\*Information therein is not incorporated by reference into this Official Statement.

**\$6,000,000\***  
**SYLVAN UNION SCHOOL DISTRICT**  
**(Stanislaus County, California)**  
**General Obligation Bonds**  
**Election of 2006, Series C (2017)**

**INTRODUCTION**

This Official Statement, which includes the cover page, the inside cover page and the appendices hereto, provides information in connection with the sale of the \$6,000,000\* Sylvan Union School District (Stanislaus County, California) General Obligation Bonds, Election of 2006, Series C (2017) (the “Bonds”).

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

**The District**

The Sylvan Union School District (the “District”) covers an area of approximately 23 square miles within the City of Modesto (the “City”) in Stanislaus County (the “County”), California. The District was established in 1946 under the laws of the State of California. The District is currently operating ten elementary schools and three intermediate schools. The District is under the authority of the Stanislaus County Office of Education.

The District is governed by a five-member Board of Trustees (the “District Board”) which is elected in alternating four-year terms. The chief executive officer of the District is the Superintendent, who is appointed by the District Board.

For more complete information concerning the District, including certain financial information, see “THE DISTRICT” and APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION. The District’s audited financial statements for the fiscal year ended June 30, 2016, are included as APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016.

**Sources of Payment for the Bonds**

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and is obligated to annually levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property in the District subject to taxation by the District without limitation of rate or amount (except

---

\* Preliminary, subject to change.

certain personal property which is taxable at limited rates). See “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.”

### **Authority for Issue; Purpose of Issue**

The Bonds are being issued by the District pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code and a resolution adopted by the Governing Board of the District (the “Governing Board”) on September 5, 2017 (the “Resolution”).

The Bonds are being issued to (a) finance the acquisition and construction of educational facilities and projects which were described in the ballot measure approved by the electors of the District on November 7, 2006, which authorized the issuance of general obligation bonds in the maximum aggregate principal amount of \$40,000,000 (the “2006 Authorization”), and (b) pay for costs of issuance of the Bonds. The Bonds constitute the third and last issue of bonds under the 2006 Authorization.

### **Description of the Bonds**

The Bonds are being issued as current interest bonds. The Bonds will be dated as of their date of delivery, will be issued as fully registered bonds, without coupons, in the denominations of \$5,000 principal amount or any integral multiple thereof. Interest on the Bonds accrues from their date of delivery and is payable semiannually on each February 1 and August 1 (each an “Interest Payment Date”), commencing February 1, 2018.

The Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See “BOOK-ENTRY ONLY SYSTEM” and APPENDIX G—BOOK-ENTRY SYSTEM. In event that the book-entry system described below is no longer used with respect to the Bonds, the Bonds will be registered in accordance with the Resolution as described herein. See “THE BONDS—Registration, Transfer and Exchange of Bonds.” Individual purchases of interests in the Bonds will be available to purchasers of the Bonds in the denominations of \$5,000 principal amount or any integral multiple thereof.

Certain of the Bonds are subject to redemption prior to maturity. See “THE BONDS—Redemption.”

### **Tax Matters**

In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject to compliance by the District with certain covenants, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. It is also the opinion of Bond Counsel that the Bonds are “qualified tax-exempt obligations” under section 265(b)(3) of the Internal Revenue Code of 1986. In addition, in the



opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxation imposed by the State of California. See "TAX MATTERS."

### **Offering and Delivery**

The Bonds are offered when, as and if issued and received by the purchaser, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC on or about November 9, 2017.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The specific nature of the information to be made available and of the notices of enumerated events is summarized below under the caption "CONTINUING DISCLOSURE." Also, see APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Bonds are available for inspection at the office of the Superintendent, Sylvan Union School District, 605 Sylvan Avenue, Modesto, CA 95350, telephone (209) 574-5000. The District may impose a charge for copying, mailing and handling.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to documents, statutes and constitutional provisions referred to herein do not purport to be comprehensive or definitive, and are qualified in their entireties by reference to each of such documents, statutes and constitutional provisions.

The information set forth herein has been obtained from official sources which are believed to be reliable but it 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 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

## **THE BONDS**

### **Authority for Issuance**

The Bonds are issued pursuant to the Constitution and laws of the State, including the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code. The Bonds are authorized pursuant to the Resolution.

## Purposes of Issuance

The Bonds are being issued to (a) finance the projects authorized under 2006 Authorization, and (b) pay for costs of issuance of the Bonds. See “—Estimated Sources and Uses of Funds.”

The District has authorized and issued certain other general obligation bonds. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds.

## Security

The Bonds constitute general obligations of the District payable solely from *ad valorem* property taxes levied and collected by the County. The Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes for the payment of the Bonds, and the interest thereon, upon all property in the District subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. The levy may include an allowance for a reserve, established to avoid fluctuations in tax levies. Such taxes, when collected, will be deposited, with respect to the Bonds, into the interest and sinking fund maintained by the County for the District (the “Interest and Sinking Fund”) and which is required by the California Education Code to be applied for the payment of principal of and interest on the Bonds when due. Although the County is obligated to levy an *ad valorem* tax for the payment of the Bonds, and the County Auditor-Controller will maintain the Interest and Sinking Fund, the Bonds are a debt of the District, not the County.

Moneys placed in the Interest and Sinking Fund of the District are irrevocably pledged for the payment of the principal of and interest on the Bonds when and as the same fall due. The property taxes and amounts held in the Interest and Sinking Fund of the District shall immediately be subject to this pledge, and the pledge shall constitute a lien and security interest which 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. The pledge is an agreement between the District and the Owners of the Bonds in addition to the statutory lien in accordance with section 53515(a) of the California Government Code, and the Bonds are being issued to finance one or more projects and not to finance the general purposes of the District.

In accordance with section 53515(a) of the California Government Code, the Bonds shall be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax for general obligation bonds issued under the 2006 Authorization. The lien shall automatically attach without further action or authorization by the District or the County. The lien shall be valid and binding from the time the Bonds are issued and delivered. The revenues received pursuant to the levy and collection of the tax shall be immediately subject to the lien, and the lien shall automatically attach to the revenues and be effective, binding, and enforceable against the District, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

The moneys in the Interest and Sinking Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, will be transferred by the County, through the County Treasurer-Tax Collector, to the Paying Agent (hereinafter defined) which, in turn, will pay such

moneys to DTC to pay the principal of and interest on the Bonds. DTC will thereupon make payments of principal and interest on the Bonds to the DTC Participants who will thereupon make payments of principal and interest to the Beneficial Owners (as defined herein) of the Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemption for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought or toxic contamination, could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate. For further information regarding the District's assessed valuation, tax rates, overlapping debt, and other matters concerning taxation, see "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

The District has authorized and issued certain other general obligation bonds. See APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds.

### **Description of the Bonds**

The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Beneficial Owners will not receive physical certificates representing their interest in the Bonds. See "BOOK-ENTRY ONLY SYSTEM" and APPENDIX G—BOOK-ENTRY SYSTEM.

Interest on the Bonds accrues from their date of delivery and is payable semiannually on each Interest Payment Date. Interest on the Bonds accrues on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to that Interest Payment Date, inclusive, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before January 15, 2018, in which event it will bear interest from its date of delivery.

The Bonds are issuable in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on the dates, in the years and amounts set forth on the inside cover page hereof. The principal of and interest on the Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check or draft of the Paying Agent mailed by first-class mail to the Owner at the Owner's address as it appears on the registration books maintained by the Paying Agent as of the close of business on the fifteenth day of the month next preceding such Interest Payment Date (the "Record Date"), or at such other address as the Owner may have filed with the Paying Agent for that purpose; provided however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Paying Agent at least five (5) days before the applicable Record Date. See also "BOOK ENTRY ONLY SYSTEM" below.

See the maturity schedule on the inside cover page hereof and “—Debt Service Schedule.”

## **Payment**

The principal on the Bonds will be payable upon maturity or redemption upon surrender of such Bonds at the principal office of the Paying Agent. The principal of and interest on the Bonds will be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Bonds when duly presented for payment at maturity, and to cancel all Bonds upon payment thereof. The Bonds are general obligations of the District and do not constitute obligations of the County. No part of any fund of the County is pledged or obligated to the payment of the Bonds.

## **Redemption**

*Optional Redemption.* The Bonds maturing on and prior to August 1, 20\_\_\_\_, are not callable for redemption prior to their stated maturity dates. The Bonds maturing on and after August 1, 20\_\_\_\_, are callable for redemption prior to their stated maturity date at the option of the District, in whole or in part on any date on or after August 1, 20\_\_\_\_, from any source lawfully available therefor, at a redemption price equal to the principal amount of the Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

*Selection of Bonds for Redemption.* If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be called in such order as shall be directed by the District and, in lieu of such direction, in inverse order of their maturity. Within a maturity, the Paying Agent shall select the Bonds for redemption by lot; *provided, however*, that the portion of any Bonds to be redeemed shall be in the principal amount of \$5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the Paying Agent shall treat each Bonds as representing that number of Bonds which is obtained by dividing the principal amount of such Bonds by five thousand dollars.

*Notice of Redemption.* The Paying Agent is required to mail (by first class mail) notice of any redemption to: (i) the respective Owners of any Bonds designated for redemption, at least thirty (30) but not more than sixty (60) days prior to the redemption date, at their respective addresses appearing on the Bond Register, and (ii) the Securities Depositories and to one or more Information Services, at least thirty (30) but not more than sixty (60) days prior to the redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice will state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

*Conditional Notice of Redemption.* Notwithstanding the foregoing, in the case of any optional redemption of the Bonds, the notice of redemption will state that the redemption is conditioned upon receipt by the Paying Agent of sufficient moneys to redeem the Bonds on the scheduled redemption date, and that the optional redemption shall not occur if, by no later than the scheduled redemption date, sufficient moneys to redeem the Bonds have not been deposited with the Paying Agent. In the event that the Paying Agent does not receive sufficient funds by the scheduled optional redemption date to so redeem the Bonds to be optionally redeemed, the Paying Agent will send written notice to the Owners, to the Securities Depositories and to one or more of the Information Services to the effect that the

redemption did not occur as anticipated, and the Bonds for which notice of optional redemption was given shall remain Outstanding for all purposes.

*Partial Redemption of Bonds.* In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the District will execute and the Paying Agent will authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed. Bonds need not be presented for mandatory sinking fund redemptions.

*Effect of Redemption.* Notice having been given as described above, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside for such purpose, the Bonds to be redeemed will become due and payable on such date of redemption. If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, will be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof will have been given as aforesaid, then from and after such redemption date, interest with respect to the Bonds to be redeemed will cease to accrue and become payable. All money held by or on behalf of the Paying Agent for the redemption of Bonds will be held in trust for the account of the registered owners of the Bonds so to be redeemed. Bonds (or portions thereof), which have been duly called for redemption prior to maturity, or with respect to which irrevocable instructions to call for redemption prior to maturity at the earliest redemption date have been given to the Paying Agent, and sufficient moneys are held by the Paying Agent irrevocably in trust for the payment of the redemption price of such Bonds or portions thereof, then such Bonds will no longer be deemed outstanding and will be surrendered to the Paying Agent for cancellation.

## **Defeasance**

*Discharge of Resolution.* Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable under the Resolution by the District:

- (i) by paying or causing to be paid the principal or redemption price of and interest on Bonds Outstanding, as and when the same become due and payable;
- (ii) by depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Resolution) to pay or redeem Bonds Outstanding; or
- (iii) by delivering to the Paying Agent, for cancellation by it, Bonds Outstanding.

then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and all covenants, agreements and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied, except only as provided in the Resolution. In such event, upon request of the District, the Paying Agent shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary to evidence such discharge and satisfaction, and the Paying Agent shall pay over, transfer, assign or deliver to the District

all moneys or securities or other property held by it pursuant to the Resolution which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

*Discharge of Liability on Bonds.* Upon the deposit, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Resolution) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Paying Agent shall have been made for the giving of such notice, then all liability of the District in respect of such Bond shall cease and be completely discharged, except only that thereafter the Owner thereof shall be entitled only to payment of the principal of and interest on such Bond by the District, and the District shall remain liable for such payment, but only out of such money or securities deposited in trust with an escrow holder as aforesaid for such payment, provided further, however, that the provisions of the Resolution shall apply in all events.

The District may at any time surrender to the Paying Agent for cancellation by it any Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

*Deposit of Money or Securities with Paying Agent.* Whenever in the Resolution it is provided or permitted that there be deposited with or held in trust with an escrow holder money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Paying Agent in the funds and accounts established pursuant to the Resolution and shall be:

(i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Resolution or provision satisfactory to the Paying Agent will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

(ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given provided in the Resolution or provision satisfactory to the Paying Agent shall have been made for the giving of such notice;

provided, in each case, that the Paying Agent shall have been irrevocably instructed (by the terms of the Resolution or by request of the District) to apply such money to the payment of such principal or redemption price and interest with respect to such Bonds.

“Federal Securities” means United States Treasury Bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

*Payment of Bonds After Discharge of Resolution.* Notwithstanding any provisions of the Resolution, any moneys held by an escrow holder in trust for the payment of the principal or redemption price of, or interest on, any Bonds and remaining unclaimed for one year after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Resolution), if such moneys were so held at such date, or one year after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall, upon request of the District, be repaid to the District free from the trusts created by the Resolution, and all liability of the escrow holder with respect to such moneys shall thereupon cease; *provided, however*, that before the repayment of such moneys to the District as aforesaid, the Paying Agent may (at the cost of the District) first mail to the Owners of all Bonds which have not been paid at the addresses shown on the registration books maintained by the Paying Agent a notice in such form as may be deemed appropriate by the Paying Agent, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

### **Registration, Transfer and Exchange of Bonds**

So long as any of the Bonds remain outstanding, the District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Bonds as provided in the Resolution (the "Bond Register"). Subject to the provisions of the Resolution, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the Resolution. Payment of or on account of the principal of any Bond will be made only to or upon the order of that person; neither the District, nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Resolution. All such payments will be valid and effectual to satisfy and discharge the District's liability upon the Bonds, including interest, to the extent of the amount or amounts so paid.

In the event that the book-entry system as described herein is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer, and exchange of the Bonds.

Any Bond may be exchanged for Bonds of like tenor, maturity, and outstanding principal amount (the "Transfer Amount") upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of the Bond at the principal office of the Paying Agent together with an assignment executed by the owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent will complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the owner equal to the Transfer Amount of the Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Bonds, the District will sign and the Paying Agent will authenticate and deliver Bonds in accordance with the provisions of the Resolution. All fees and costs of transfer will be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Bonds issued upon any exchange or transfer will be valid obligations of the District, evidencing the same debt, and entitled to the same security and benefit under the Resolution as the Bonds surrendered upon that exchange or transfer.

Any Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer will be canceled by the Paying Agent. The District may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Bonds that the District may have acquired in any manner whatsoever, and those Bonds will be promptly canceled by the Paying Agent. Written reports of the surrender and cancellation of Bonds will be made to the District by the Paying Agent. The canceled Bonds will be retained for a period of time, then returned to the District or destroyed by the Paying Agent as directed by the District.

Neither the District nor the Paying Agent will be required (a) to issue or transfer any Bonds during a period beginning with the opening of business on the 16th business day next preceding either any Interest Payment Date or any date of selection of Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the applicable notice of redemption is given or (b) to transfer any Bonds which have been selected or called for redemption in whole or in part.

### **Estimated Sources and Uses of Funds**

The estimated sources and uses of funds in connection with the Bonds are as follows:

#### Sources of Funds:

Principal Amount of Bonds	
Plus: Net Original Issue Premium	
Total Sources of Funds	<hr/> <hr/>

#### Uses of Funds:

Deposit to Building Fund	
Deposit to Interest and Sinking Fund	
Costs of Issuance (1)	
Retained by Underwriter (2)	
Total Uses of Funds	<hr/> <hr/>

- (1) Includes the Underwriter's discount, the fees of the municipal advisor, bond counsel, disclosure counsel, the rating agency and other third party providers. Any excess in the Costs of Issuance Fund will be transferred to the District's Interest and Sinking Fund.
- (2) Amounts are based on the Underwriter's representations of the prices at which the Bonds were reoffered to the public. The sale of Bonds to the public at prices that differ from the represented original reoffering price will impact the actual Underwriter's compensation on this transaction.

### **Financing Plan**

The proceeds of sale of the Bonds, exclusive of any premium and accrued interest received, shall be deposited in the County Treasury to the credit of the Building Fund of the District. Any premium and accrued interest shall be deposited upon receipt in the Interest and Sinking Fund of the District within the County Treasury. All funds held in the Interest and Sinking Fund of the District and in the Building Fund of the District shall be invested at the County Treasurer's discretion, pursuant to law and the investment policy of the County. The County Treasurer's Office neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District shall maintain or cause to be maintained detailed records with respect to the applicable funds. See APPENDIX D - COUNTY INVESTMENT POLICY.



A portion of the proceeds of the Bonds will be retained by the Paying Agent in a costs of issuance account (the “Costs of Issuance Account”) and used to pay a portion of the costs associated with the issuance of the Bonds.

### Debt Service Schedule

The following table shows the annual debt service schedule with respect to the Bonds (assuming no optional redemptions).

Bond Year Ending August 1	Principal	Interest <sup>(1)</sup>	Total
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
TOTAL			

(1) Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2018.

See APPENDIX B— DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION—District Debt—General Obligation Bonds for a table showing the combined debt service schedule with respect to the District’s outstanding general obligation bonds.

### PAYING AGENT

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, will act as the paying agent for the Bonds (the “Paying Agent”). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Bonds called for redemption or of any other action premised on such notice.

The Paying Agent, the District, the County and the Underwriter have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests for the Bonds.

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. See APPENDIX G—BOOK-ENTRY SYSTEM.

### **THE DISTRICT**

#### **General Information**

The District covers an area of approximately 23 square miles within the City of Modesto in Stanislaus County, California. The District was established in 1946 under the laws of the State of California. The District is currently operating ten elementary schools and three intermediate schools. The District is under the authority of the Stanislaus County Office of Education.

#### **Board of Trustees and Administration**

The District Board is comprised of five elected school board members who develop and set policies for the District, which are then implemented by the Superintendent and the administrative team. District Board members are elected for a four-year term of office. Current members of the District Board, together with their office and the date their current term expires, are listed below:

<u>District Board Member</u>	<u>Office</u>	<u>Current Term Expires (December)</u>
Terriann Zeek	President	2017
Cynthia Lindsey	Vice President	2017
David Collins	Trustee	2019
Jennifer Miyakawa	Trustee	2019
George Rawe	Trustee	2017

The administrative staff of the District includes Superintendent Debra M. Hendricks, and Yvonne Perez, Assistant Superintendent, Business Services.

## SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

*The information in this section describes ad valorem property taxation, assessed valuation, and other measures of the tax base of the District. The Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the District. The District's General Fund is not a source for the repayment of the Bonds.*

### General

In order to provide sufficient funds for repayment of principal and interest when due on the 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, including the countywide tax of 1% of taxable value. 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 general obligation bonds of the District.

### Property Taxation System

The collection of property taxes is significant to the District and the Owners of the Bonds in two respects. First, the Board of Supervisors of the County will levy and collect *ad valorem* taxes on all taxable parcels within the District, which are pledged specifically to the repayment of the Bonds. Second, the general *ad valorem* property tax levy levied in accordance with Article XIII A of the California Constitution and its implementing legislation is taken into account in connection with the State's Local Control Funding Formula ("LCFF") which determines the amount of funding received by the District from the State to operate the District's educational programs. The LCFF replaces revenue limit and most categorical program funding previously used to determine the amount of funding received by the District from the State with the LCFF which consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district's student demographic. See APPENDIX B-- "DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION - Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System" below. As described below, the general *ad valorem* property tax levy and the additional *ad valorem* property tax levy pledged to repay the Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the District.

The District received approximately 17% of its total general fund operating revenues from local property taxes in fiscal year 2016-17, excluding parcel tax revenues and expects to receive approximately 17% in fiscal year 2017-18.

Local property taxation is the responsibility of various officers of the counties. 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 according to the approved tax rolls. In addition, the treasurer-tax collector, as *ex officio* treasurer of each school district located in the county, holds and invests school district funds, including taxes collected

for payment of school bonds, and is charged with payment of principal and interest on such bonds when due. Taxes on property in a school district whose boundaries extend into more than one county are administered separately by the county in which the property is located. The State Board of Equalization also assesses certain special classes of property, as described later in this section.

### **Method of Property Taxation**

Under Proposition 13, an amendment to the California Constitution adopted in 1978 that added Article XIII A of the California Constitution, 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 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. Because 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 that of similar properties more recently sold, and may be lower than its own market value. Likewise, changes in ownership of property and reassessment of such property to market value commonly will 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 APPENDIX B-DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

Local agencies and schools will share the growth of "base" sources from the tax rate area. Each year's growth allocation becomes part of each local agency's allocation in the following year. The availability of revenue from growth in the tax bases in such tax rate areas may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

For assessment and tax collection purposes, 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.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll, with respect to which

taxes are delinquent, becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of one and one-half percent per month attaches to such taxes on the first day of each month until paid. A county has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the delinquent taxpayer.

### Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution.

Certain classes of property, such as churches, colleges, not-for-profit hospitals and charitable institutions, are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions. Both the general *ad valorem* property tax levy and the additional *ad valorem* levy for the Bonds are based upon the assessed valuation of the parcels of taxable property in the District. Property taxes allocated to the District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both District and County taxing purposes. The valuation of secured property by the County Assessor is established as of January 1, and is subsequently equalized in September of each year.

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 Bonds. The table below shows the assessed valuation of taxable property in the District for the most recent fiscal years.

#### Sylvan Union School District HISTORIC ASSESSED VALUATIONS Fiscal Years 2011-12 to 2017-18

Fiscal Year	Local Secured	Utility	Unsecured	Total Valuation
2011-12	\$4,542,713,668	\$394,826	\$157,308,570	\$4,700,022,238
2012-13	4,415,470,660	521,109	156,212,042	4,572,203,811
2013-14	4,700,671,467	521,109	155,200,037	4,856,392,613
2014-15	5,295,510,911	521,109	155,530,686	5,451,562,706
2015-16	5,577,628,779	521,109	151,414,762	5,729,564,650
2016-17	5,904,010,071	736,948	153,690,393	6,058,437,412
2017-18	6,217,320,521	736,948	162,289,415	6,380,346,884

Source: California Municipal Statistics, Inc.

As indicated above, assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year.

*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values.* There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis.

*Risk of Decline in Property Values; Fire; Earthquake Risk.* Property values could be reduced by factors beyond the District's control, including fire, earthquake and a depressed real estate market due to general economic conditions in the County, the region and the State.

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 Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

*State-Assessed Property.* Under the 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.

The following table shows the 2017-18 assessed valuation of each jurisdiction within the boundaries of the District:

**Sylvan Union School District**  
**ASSESSED VALUATION BY JURISDICTION<sup>(1)</sup>**  
**Fiscal Year 2017-18**

Jurisdiction	Assessed Value in District	% of District	Assessed Value of Jurisdiction	% of Jurisdiction In District
City of Modesto	\$ 4,960,049,835	77.74%	\$ 15,695,785,670	31.60%
City of Riverbank	985,336,870	15.44	1,711,941,615	57.56
Unincorporated Stanislaus County	434,960,179	6.82	14,449,683,029	3.01
Total District	6,380,346,884	100.00		
Stanislaus County	6,380,346,884	100.00	46,810,514,983	13.63

Source: California Municipal Statistics, Inc.

(1) Before deduction of redevelopment incremental valuation.

The following table gives a distribution of taxable real 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.

**Sylvan Union School District  
ASSESSED VALUATION AND PARCELS BY LAND USE  
Fiscal Year 2017-18**

	2017-18 Assessed Valuation	% of Total	No. of Parcels	% of Total
<u>Non Residential:</u>				
Agricultural	\$ 99,641,253	1.60%	251	1.06%
Commercial	790,627,223	12.72	496	2.09
Vacant Commercial	25,424,529	0.41	45	0.19
Industrial	117,979,081	1.90	80	0.34
Vacant Industrial	6,543,576	0.11	27	0.11
Government/Social/Institutional	463,217	0.01	525	2.21
Subtotal Non-Residential	\$1,040,678,879	16.74%	1,424	5.99%
<u>Residential:</u>				
Single Family Residence	\$4,601,381,377	74.01%	19,179	80.68
Condominium/Townhouse	118,331,924	1.90	1,040	4.37
Mobile Home	28,844,502	0.46	873	3.67
Mobile Home Park	20,369,359	0.33	6	0.03
2-3 Residential Units	113,325,779	1.82	547	2.30
4+ Residential Units/Apartments	248,454,157	4.00	151	0.64
Vacant Residential	45,934,544	0.74	553	2.33
Subtotal Residential	\$5,176,641,642	83.26%	22,349	94.01%
Total	\$6,217,320,521	100.00%	23,773	100.00%

Source: California Municipal Statistics, Inc.

(1) Total Secured Assessed Valuation, excluding tax-exempt property.



The following table shows the assessed valuations of single-family homes for the District.

**Sylvan Union School District**  
**ASSESSED VALUATION OF SINGLE FAMILY HOMES**  
**Fiscal Year 2017-18**

	No. of Parcels		2017-18 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	19,179		\$4,601,381,377	\$239,918	\$235,203

  

2017-18 Assessed Valuation	No. of Parcels	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$24,999	5	0.026%	0.026%	\$ 92,000	0.002%	0.002%
\$25,000 - \$49,999	186	0.970	0.996	8,328,493	0.181	0.183
\$50,000 - \$74,999	603	3.144	4.140	37,940,311	0.825	1.008
\$75,000 - \$99,999	596	3.108	7.248	52,264,180	1.136	2.143
\$100,000 - \$124,999	887	4.625	11.872	101,016,149	2.195	4.339
\$125,000 - \$149,999	1,289	6.721	18.593	177,881,031	3.866	8.205
\$150,000 - \$174,999	1,710	8.916	27.509	278,212,517	6.046	14.251
\$175,000 - \$199,999	1,771	9.234	36.743	331,989,480	7.215	21.466
\$200,000 - \$224,999	1,779	9.276	46.019	377,851,099	8.212	29.678
\$225,000 - \$249,999	1,824	9.510	55.529	433,006,220	9.410	39.088
\$250,000 - \$274,999	1,680	8.760	64.289	440,832,693	9.580	48.668
\$275,000 - \$299,999	1,600	8.342	72.632	459,514,702	9.986	58.655
\$300,000 - \$324,999	1,389	7.242	79.874	433,343,472	9.418	68.072
\$325,000 - \$349,999	1,132	5.902	85.776	381,298,628	8.287	76.359
\$350,000 - \$374,999	938	4.891	90.667	339,373,155	7.375	83.735
\$375,000 - \$399,999	786	4.098	94.765	303,914,407	6.605	90.339
\$400,000 - \$424,999	504	2.628	97.393	207,437,873	4.508	94.848
\$425,000 - \$449,999	234	1.220	98.613	102,005,968	2.217	97.064
\$450,000 - \$474,999	114	0.594	99.207	52,541,056	1.142	98.206
\$475,000 - \$499,999	54	0.282	99.489	26,131,597	0.568	98.774
\$500,000 and greater	98	0.511	100.000	56,406,346	1.226	100.000
Total	19,179	100.000		\$4,601,381,377	100.000%	

Source: California Municipal Statistics, Inc.

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

## 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.

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

pay the principal of and interest on the Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in the principal Tax Rate Area (“TRA”) within the District for the past five fiscal years. TRA 2-008 comprises approximately 37% of the total assessed value of property in the District.

**Sylvan Union School District  
TYPICAL *AD VALOREM* TAX RATES  
Fiscal Years 2013-14 to 2017-18**

Total Tax Rates (TRA 2-008 – 2017-18 Assessed Valuation: \$2,381,330,964)

	2013-14	2014-15	2015-16	2016-17	2017-18
General	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Sylvan Union School District	0.051802	0.050935	0.032755	0.034976	0.019178
Modesto High School District	0.036365	0.039014	0.034331	0.035578	0.035130
Yosemite Community College District	0.026981	0.021823	0.026920	0.023034	0.024068
Total	1.115148%	1.111772%	1.094006%	1.093588%	1.078376%

Source: California Municipal Statistics, Inc.

**Tax Levies and Delinquencies**

Beginning in 1978-79, Article XIII A and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior-voted debt, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each County.

The following table reflects the historical secured tax levy and year-end delinquencies for general obligation bonds of the District for the most recent fiscal years.

**Sylvan Union School District  
SECURED TAX CHARGE AND DELINQUENCY  
Fiscal Years 2010-11 to 2015-16**

Fiscal Year	Secured Tax Charge	Amount Delinquent June 30	Percent Delinquent June 30
2010-11	\$ 414,118,855	\$ 10,608,959	2.56%
2011-12	405,492,190	8,986,182	2.22
2012-13	404,824,313	8,612,451	2.13
2013-14	427,460,005	9,323,891	2.18
2014-15	463,110,769	7,451,485	1.61
2015-16	491,718,120	7,290,009	1.48

Source: California Municipal Statistics, Inc.

(1) Bond debt service levy.

(2) Last full year available as of October 1, 2017.

## Teeter Plan

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

To implement a Teeter Plan, the board of supervisors of a county generally must elect to do so by July 15 of the fiscal year in which it is to apply. As a separate election, a county may elect to have the Teeter Plan procedures also apply to assessments on the secured roll. The County’s Teeter Plan applies to the District and to the Bonds. The *ad valorem* property tax to be levied on the secured roll to pay the accreted value and maturity value on the District outstanding general obligation bonds will be subject to the Teeter Plan. The District will receive 100% of the *ad valorem* property tax levied on the secured roll to pay the Bonds irrespective of actual delinquencies in the collection of the tax by the County.

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

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

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

The County has the right under certain circumstances to terminate the Teeter Plan or remove the District from the Teeter Plan. The County has not notified the District of any intention to terminate the Teeter Plan or to exclude the District from the plan.

## Largest Property Owners

*Concentration of Property Ownership.* Based on fiscal year 2017-18 locally assessed taxable valuations, the top twenty taxable property owners in the District represent approximately 10.51% of the total fiscal year 2017-18 taxable value.

The following table shows the 20 largest owners of taxable property in the District as determined by secured assessed valuation in fiscal year 2017-18, representing 6.74% of the District's total assessed valuation.

### Sylvan Union School District LARGEST LOCAL SECURED TAXPAYERS Fiscal Year 2017-18

	Property Owner	Primary Land Use	2017-18 Assessed Valuation	% of Total
1.	First Riverbank LP	Shopping Center	\$ 68,401,171	1.10%
2.	North Point Station LLC	Shopping Center	30,827,280	0.50
3.	Brooks Landing Administration Inc.	Apartments	28,333,119	0.46
4.	McHenry-Modesto	Shopping Center	27,176,072	0.44
5.	Target Corporation	Commercial	26,982,980	0.43
6.	Antelope Valley Ranches LLC	Apartments	25,176,546	0.40
7.	Tully Manor Investments LLC	Shopping Center	24,273,935	0.39
8.	Village One Station LLC	Commercial	22,770,792	0.37
9.	Promenade Modesto LLC	Shopping Center	21,603,000	0.35
10.	L O Associates	Apartments	19,061,630	0.31
11.	Vintage Properties LP	Apartments	16,049,284	0.26
12.	Naraghi Marina LLC	Apartments	14,740,500	0.24
13.	Phoenix Family LP	Mobile Home Park	13,789,304	0.22
14.	Costa Limited Partners LP	Warehouse	11,990,028	0.19
15.	V O Associates	Apartments	11,966,575	0.19
16.	Healthsouth California Real Estate LLC	Hospital	11,953,769	0.19
17.	WRI Marshalls Plaza LP	Shopping Center	11,484,000	0.18
18.	Tilden - Stoneybrook LLC	Apartments	10,999,432	0.18
19.	Greg and Julie A. Avery	Mini-Warehouse	10,818,285	0.17
20.	Stinson Family No. 1 & 2 LP	Auto Dealership	10,536,387	0.17
	Total Top 20		<u>\$418,934,089</u>	<u>6.74%</u>

Source: California Municipal Statistics, Inc.

(1) 2015-16 Local secured assessed valuation: \$6,217,320,521.

## Direct and Overlapping Debt

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. 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 table generally includes long-term obligations sold in the public credit markets by the public agencies listed. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-

term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of October 1, 2017, and whose territory overlaps the District in whole or in part. The second column 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 the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

**Sylvan Union School District  
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT**

SYLVAN UNION SCHOOL DISTRICT

2017-18 Assessed Valuation: \$6,380,346,884

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable<sup>(1)</sup></u>	<u>Debt 10/1/17</u>
Yosemite Community College District	10.031%	\$ 27,747,860
Modesto High School District	27.878	8,778,000
<b>Sylvan Union School District</b>	<b>100.000</b>	<b>28,464,094<sup>(2)</sup></b>
City of Modesto Community Facilities District No. 2004-1	100.000	27,990,000
Schools Infrastructure Financing Agency CFDs No. 1994-1 and 1998-1	100.000	12,735,000
City of Riverbank Parkview Estates Assessment District	29.630	31,448
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$105,746,402</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Stanislaus County Certificates of Participation	13.681%	4,079,674
Stanislaus County Office of Education Certificates of Participation	13.681	342,025
Modesto High School District Certificates of Participation	27.878	4,577,568
City of Modesto Certificates of Participation	31.703	17,656,986
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>26,656,253</b>
Less: City of Modesto obligations supported by golf enterprise funds		925,728
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>25,730,525</b>
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agency):</u>		<b>794,045</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>133,196,700<sup>(3)</sup></b>
<b>NET COMBINED TOTAL DEBT</b>		<b>132,270,972</b>

Ratios to 2017-18 Assessed Valuation:

<b>Direct Debt (\$28,464,094)</b> .....	<b>0.45%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	1.66%
Gross Combined Total Debt.....	2.09%
Net Combined Total Debt.....	2.07%

Ratio to Redevelopment Successor Agency Incremental Valuation (\$10,973,453):

Total Overlapping Tax Increment Debt .....	7.24%
--	-------

Source: California Municipal Statistics, Inc.

(1) Based on 2016-17 ratios.

(2) Excludes issue to be sold.

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

## **Bonding Capacity**

As a school district, the District may issue bonds in an amount up to 1.25% of the assessed valuation of taxable property within its boundaries. Based on the fiscal year 2017-18 assessment roll, the District's gross bonding capacity is approximately \$\_\_\_\_\_, and its net bonding capacity is \$\_\_\_\_\_ (taking into account current outstanding debt before issuance of the Bonds). 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.

## **COUNTY POOLED INVESTMENT FUND**

*The following information has been provided by the County, and the District and Underwriter take no responsibility for the accuracy or completeness thereof. Further information may be obtained from the County Treasurer.*

*General.* Under the California Education Code, the District is required to deposit all monies received from any source into the County Treasury to be held on behalf of the District. The County maintains a written policy (the "Investment Policy") with respect to the investment of public funds which provides a means to implement the basic objectives of its investment program pursuant to California Code Section 53630. The objective of the Investment policy is to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands, or liquidity needs of the treasury pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. The County's Investment Policy is reviewed and adopted by resolution by the County Board of Supervisors on an annual basis.

*County Treasury Pool.* The daily investment of Pool funds has been delegated to the County Treasurer/Tax Collector ("Treasurer") pursuant to Government Code section 53635 and by ordinance of the County Board of Supervisors. According to the Investment Policy, the primary objective of the investment of short term operating funds is to maintain the principal of such funds (safety) in investment vehicles which are easily converted to cash (liquidity) while obtaining a competitive market rate of return (yield) for the risk taken at the time of investing.

*Safety of principal.* Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses do not exceed the income generated from the remainder of the portfolio.

*Liquidity.* The investment portfolio shall remain sufficiently liquid to enable the depositors to meet all expenditure requirements that might be reasonably anticipated. A minimum of 30% of the invested assets, including cash held in commercial bank accounts, shall be kept in overnight liquid assets. In the event that unforeseen cash-flow fluctuations temporarily cause the ratio of overnight liquid assets to decline below 30% of the portfolio balance, no new investments will be made until the minimum ratio is restored.

*Return on Investment.* The county's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

The table below shows the investments held in the County Pool, as of June 30, 2017

**STANISLAUS COUNTY INVESTMENT POOL  
PORTFOLIO COMPOSITION  
(as of June 30, 2017)**

Investment	Cost	Market Value	% of Portfolio
Negotiable Certificates of Deposit	\$ 145,000,000.00	\$ 144,849,650.00	10.94%
Commercial Paper	149,304,101.39	149,578,450.00	11.27
Managed Funds	65,000,000.00	64,946,436.82	4.91
Agencies—Coupon	405,106,196.51	403,917,281.00	30.58
Treasuries—Coupon	408,828,279.64	408,153,100.00	30.86
Medium Term Notes	131,593,216.30	131,628,742.76	9.93
California Local Agency Indebtedness	4,990,000.00	4,990,000.00	0.38
Money Market Funds	15,000,000.00	15,000,000.00	1.13
Total Investments	\$1,324,821,793.84	\$1,323,063,660.58	100.00%
Cash/Bank Balances	7,032,163.88	7,032,163.88	
Total	\$1,331,853,957.72	\$1,330,095,824.46	

Source: Stanislaus County Treasurer-Collector

## LEGAL MATTERS

### Possible Limitations on Remedies; Bankruptcy

*General.* Following is a discussion of certain considerations relating to potential bankruptcies of school districts in California. It is not an exhaustive discussion of the potential application of bankruptcy law to the District. State law contains a number of safeguards to protect the financial solvency of school districts. See “APPENDIX B—DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL INFORMATION.” If the safeguards are not successful in preventing a school district from becoming insolvent, the State Superintendent of Public Instruction (the “State Superintendent”), operating through an administrator appointed by the State Superintendent, may be authorized under State law to file a petition under Chapter 9 of the United States Bankruptcy Code (the “Bankruptcy Code”) on behalf of a district for the adjustment of its debts, assuming that such district meets certain other requirements contained in the Bankruptcy Code necessary for filing such a petition. School districts under current State law are not themselves authorized to file a bankruptcy proceeding, and they are not subject to involuntary bankruptcy.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the District were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the District (including ad valorem tax revenues) or to enforce any obligation of the District, without the bankruptcy court’s permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the District may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, if the bankruptcy court were to determine that the alterations were fair and equitable. In addition, in such a proceeding, as part of such a plan, the District may be able to eliminate the obligation of the County to raise taxes if necessary to pay the Bonds. There

also may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any District bankruptcy proceeding, a District bankruptcy proceeding could have an adverse effect on the liquidity and market price of the Bonds.

As stated above, if a school district were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality of or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, a school district is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the Bonds shall be used for the payment of principal and interest of the District's general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the District for any purpose other than to make payments on the Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

*Statutory Lien.* Pursuant to Senate Bill 222 (2015) ("SB 222") that became effective on January 1, 2016, all general obligation bonds issued by local agencies in California, including the Bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. SB 222 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. Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the District, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed unless the Bonds are determined to be secured by a pledge of "special revenues" within the meaning of the Bankruptcy Code and the pledged ad valorem taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code.

*Special Revenues.* If the ad valorem tax revenues that are pledged to the payment of the Bonds (see "THE BONDS – Security") are determined to be "special revenues" within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged ad valorem revenues that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. "Special revenues" are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The District has specifically pledged the ad valorem taxes for payment of the Bonds. Additionally, the ad valorem taxes levied for payment of the Bonds are permitted under the State Constitution only where either (i) the applicable bond proposition is approved by 55% of the voters and such proposition contains a specific list of school facilities projects, or (ii) if the applicable bond proposition is approved by two-thirds of voters and such bonds must be issued for the acquisition or improvement of real property. Because State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition, such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of ad valorem tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.



In addition, even if the ad valorem tax revenues are determined to be “special revenues,” the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the District is entitled to use the ad valorem tax revenues to pay necessary operating expenses of the District and its schools, before the remaining revenues are paid to the owners of the Bonds.

*Possession of Tax Revenues; Remedies.* If the County or the District goes into bankruptcy and has possession of tax revenues (whether collected before or after commencement of the bankruptcy), and if the County or the District, as applicable, does not voluntarily pay such tax revenues to the owners of the Bonds, it is not clear what procedures the owners of the Bonds would take or how effective they would be in obtaining possession of such tax revenues.

*Opinion of Bond Counsel Qualified by Reference to Bankruptcy, Insolvency and Other Laws Relating to or Affecting Creditor’s Rights.* The proposed form of opinion of Bond Counsel, attached hereto as Appendix E, is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor’s rights.

## **Legal Opinions**

The proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Quint & Thimmig LLP, Larkspur, California, bond counsel for the District. Certain legal matters will also be passed upon for the District by Quint & Thimmig LLP, Larkspur, California, as disclosure counsel. The fees of bond counsel and disclosure counsel are contingent upon the issuance and delivery of the Bonds.

## **TAX MATTERS**

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The District has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the District’s compliance with the above referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

Subject to the District’s compliance with certain covenants, in the opinion of Bond Counsel, the Bonds are “qualified tax exempt obligations” under the small District exception provided under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), which affords banks and

certain other financial institutions more favorable treatment of their deduction for interest expense than would otherwise be allowed under section 265(b)(2) of the Code.

In rendering its opinions, Bond Counsel will rely upon certifications of the District with respect to certain material facts within the District's knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include certain tax exempt interest, including interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for the Bonds is the price at which a substantial amount of the Bonds is first sold to the public. The Issue Price of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price or purchase Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax exempt bond. The amortized bond premium is treated as a reduction in the tax exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bonds. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect

on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bonds.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the District as a taxpayer and the Bond owners may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

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

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX E—FORM OF OPINION OF BOND COUNSEL.

## **MUNICIPAL ADVISOR**

PFM Financial Advisors, LLC San Francisco, California ("PFM"), is an independent financial advisory firm registered as a "Municipal Advisor" with the Securities Exchange Commission and Municipal Securities Rulemaking Board. PFM does not underwrite, trade or distribute municipal or other public securities. PFM has assisted the District in connection with the planning, structuring, sale and issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken to make, an independent verification of or to assume responsibilities for the accuracy, completeness or fairness of the

information contained in this Official Statement not provided by PFM. The fees of PFM in respect to the Bonds are contingent upon their sale and delivery.

### **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than March 31 after the end of the District’s fiscal year (the current end of the District’s fiscal year is on June 30), commencing with the report for the 2016-17 fiscal year, and to provide notices of the occurrence of certain events listed in the District’s Continuing Disclosure Certificate, the form of which is in APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. The Annual Report and notices of listed events will be filed by the District with the Municipal Securities Rulemaking Board (the “MSRB”), by posting on the MSRB’s Electronic Municipal Market Access or “EMMA” system (website: [www.emma.msrb.org](http://www.emma.msrb.org)). These continuing disclosure covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The District previously entered into disclosure undertakings under the Rule in connection with the issuance of the 2007 Bonds, its General Obligation Bonds, Election of 2006, Series 2010 (the “2010 Bonds”), and its 2011 General Obligation Refunding Bonds (the “2011 Bonds”). The District did not timely file an event notice in connection with a rating upgrade with respect to the 2007 Bonds, the 2010 Bonds and the 2011 Bonds. The District has otherwise been compliant for the last five years with respect to all annual report filing requirements.

### **LEGALITY FOR INVESTMENT IN CALIFORNIA**

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

### **ABSENCE OF MATERIAL LITIGATION**

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

### **RATING**

Moody’s Investors Service (“Moody’s”) has assigned the rating of “\_\_\_” to the Bonds. Such rating reflects only the view of such organization and any desired explanation of the significance of such rating should be obtained from such organization at the following address: Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, NY 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There

is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if, in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price for the Bonds.

The District has covenanted in the Continuing Disclosure Certificate to file on the EMMA website notices of any rating changes on the Bonds. See APPENDIX F—FORM OF CONTINUING DISCLOSURE CERTIFICATE. Notwithstanding such covenant, information relating to rating changes on the Bonds may be publicly available from Moody's prior to such information being provided to the District and prior to the date the District is obligated to file a notice of a rating change on EMMA. Purchasers of the Bonds are directed to Moody's, its website and official media outlet for the most current rating changes with respect to the Bonds after the initial issuance of the Bonds.

### **UNDERWRITING**

Following a competitive sale, the Bonds were purchased by \_\_\_\_\_ (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a purchase price of \$ \_\_\_\_\_ (being the principal amount of the Bonds of \$ \_\_\_\_\_, plus a net original issue premium of \$ \_\_\_\_\_, less an Underwriter's discount of \$ \_\_\_\_\_). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **ADDITIONAL INFORMATION**

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

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

**EXECUTION**

Execution and delivery of this Official Statement have been duly authorized by the District.

SYLVAN UNION SCHOOL DISTRICT

By \_\_\_\_\_  
Debra M. Hendricks,  
Superintendent

## APPENDIX A

### GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF MODESTO AND THE COUNTY

*While the economics of the City and County and surrounding region influence the economics within the District, only property within the District is subject to an unlimited ad valorem tax levy to pay debt service on the Bonds.*

#### Introduction

The District is located in the City of Modesto (the “City”) in Stanislaus County (the “County”), California.

The City of Modesto is the County seat and largest city in the County and the 18th largest city in the state of California. The City is located in the Central Valley, 90 miles (140 km) north of Fresno, 40 miles (64 km) north of Merced, California, 92 miles (148 km) east of San Francisco, 68 miles (109 km) south of the state capital of Sacramento, 66 miles (106 km) west of Yosemite National Park, and 24 miles (39 km) south of Stockton. The City is surrounded by rich farmland that produces products including includes milk, almonds, chickens, walnuts, and corn silage. Although the City is located on the Tuolumne River and near the Stanislaus River, it has no operating port for oceangoing ships due to the shallow depths of these rivers, and also due to a small dam on the Tuolumne River near Highway 99.

Stanislaus County was formed from part of Tuolumne County in 1854. The County is located in the central part of the state of California, about 300 miles north of Los Angeles and 90 miles east of San Francisco. The County is bordered on the north by San Joaquin County, on the east by Calaveras and Tuolumne Counties, on the south by Merced County, and on the west by Santa Clara County. According to the U.S. Census Bureau, the county has a total area of 1,515 square miles (3,920 km<sup>2</sup>), of which 1,495 square miles (3,870 km<sup>2</sup>) is land and 20 square miles (52 km<sup>2</sup>) (1.3%) is water.

The County has historically been divided socially and economically by the north-flowing San Joaquin River, which provided a natural barrier to trade and travel for much of the County's history. Isolated from the main rail corridors through the County and the irrigation projects that generated much of the region's economic prosperity, the part of the County west of the river (known to locals as the “West Side” of the County) has largely remained rural and economically dependent on agricultural activities. Because of its proximity to Interstate 5 and the California Aqueduct some areas within the West Side have experienced tremendous growth and are being transformed into bedroom communities for commuters from the nearby San Francisco Bay Area, while others have been almost entirely overlooked by development and remain tiny farming communities.

## Population

The table below summarizes population figures of the City, the County and the State of California for the past five years.

### CITY OF MODESTO, STANISLAUS COUNTY and CALIFORNIA Population

Year	City	County	State
2013	206,844	525,845	38,238,492
2014	208,542	529,994	38,572,211
2015	210,147	535,125	38,915,880
2016	212,287	541,466	39,189,035
2017	215,080	548,057	39,523,613

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2010-2017, with 2010 Census Benchmark.

## Employment

The County is part of the Modesto Metropolitan Statistical Area (the “MSA”). The following table summarizes the historical numbers of workers by industry in the MSA for the last five years.

### MODESTO MSA (STANISLAUS COUNTY) Labor Force and Industry Employment Annual Averages by Industry

	2012	2013	2014	2015	2016 <sup>(1)</sup>
Total, All Industries	166,300	171,100	175,800	181,000	187,000
Total Farm	13,400	14,100	14,100	14,600	14,900
Mining, Logging, and Construction	6,300	7,000	7,500	8,500	8,900
Manufacturing	20,700	20,900	21,200	21,300	21,700
Wholesale Trade	5,800	5,900	5,900	5,900	6,200
Retail Trade	20,800	21,500	21,800	22,400	23,000
Transportation, Warehousing & Utilities	6,800	7,100	7,200	7,500	8,200
Information	1,000	900	900	900	1,000
Financial Activities	5,400	5,400	5,300	5,200	5,300
Professional & Business Services	12,800	13,400	13,800	14,200	14,700
Educational & Health Services	28,100	28,800	29,800	30,700	31,600
Leisure & Hospitality	14,900	15,800	16,900	17,800	18,600
Other Services	4,900	5,000	5,200	5,300	5,500
Government	25,400	25,500	26,100	26,700	27,500

Source: California Employment Development Department, based on March 2017 benchmark.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Last available full year data.



The following table summarizes historical employment and unemployment for the County, the State of California and the United States for the past five years.

**STANISLAUS COUNTY, CALIFORNIA, and UNITED STATES**  
**Civilian Labor Force, Employment, and Unemployment**  
**(Annual Averages)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2012	Stanislaus County	242,300	206,200	36,100	14.9%
	California	18,554,800	16,630,100	1,924,700	10.4
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	Stanislaus County	241,600	210,300	31,300	12.9
	California	18,671,600	17,002,900	1,668,700	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4
2014	Stanislaus County	242,000	215,000	27,000	11.1
	California	18,811,400	17,397,100	1,414,300	7.5
	United States	155,922,000	146,305,000	9,617,000	6.2
2015	Stanislaus County	242,700	219,600	23,100	9.5
	California	18,981,800	17,798,600	1,183,200	6.2
	United States	157,130,000	148,834,000	146,411,000	5.3
2016 <sup>(2)</sup>	Stanislaus County	244,500	223,700	20,800	8.5
	California	19,102,700	18,065,000	1,037,700	5.4
	United States	159,187,000	151,436,000	148,976,000	4.9

Source: California Employment Development Department, Monthly Labor Force Data for Counties, Annual Average 2010-2016, and US Department of Labor.

- (1) The unemployment rate is computed from unrounded data, therefore, it may differ from rates computed from rounded figures available in this table.
- (2) Latest available full-year data.

## Major Employers

The following table lists the top 10 employers within the County as of June 30, 2016.

### STANISLAUS COUNTY Top 10 Employers as of June 30, 2016

Employer	Employees	% of Total County Employment
County of Stanislaus	3,996	1.78%
Modesto City Schools	3,500	1.56
E & J Gallo Winery	3,500	1.56
Doctors Medical Center	2,600	1.16
Memorial Medical Center	2,300	1.03
Turlock Unified School District	2,267	1.01
Del Monte Foods	2,040	0.91
Seneca (Signature) Foods	2,138	0.95
Stanislaus Food Products	1,875	0.84
Save Mart Supermarkets	1,650	0.74
Total Top 10	25,866	11.53

Source: Stanislaus County 2016 CAFR.

## Construction Activity

The following table reflects the five-year history of building permit valuation for the City and the County:

### CITY OF MODESTO Building Permits and Valuation (Dollars in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Permit Valuation:</u>					
New Single-family	\$ 1,630	\$ 1,921	\$ 1,958	\$ 4,292	\$ 14,433
New Multi-family	7,127	2,600	7,700	300	-
Res. Alterations/Additions	18,928	9,343	9,270	7,395	4,911
Total Residential	27,685	13,864	18,928	11,988	19,345
Total Nonresidential	31,139	57,773	68,751	25,360	30,575
Total All Building	<u>58,825</u>	<u>71,637</u>	<u>87,679</u>	<u>37,348</u>	<u>49,920</u>
<u>New Dwelling Units:</u>					
Single Family	8	15	10	32	129
Multiple Family	10	30	50	4	-
Total	<u>18</u>	<u>45</u>	<u>60</u>	<u>36</u>	<u>129</u>

### STANISLAUS COUNTY Building Permits and Valuation (Dollars in Thousands)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<u>Permit Valuation:</u>					
New Single-family	\$ 33,825	\$ 64,015	\$ 91,762	\$ 105,228	\$ 156,444
New Multi-family	16,767	3,362	7,700	1,063	1,054
Res. Alterations/Additions	43,827	27,737	37,921	30,899	38,540
Total Residential	94,420	95,115	137,384	137,191	196,039
Total Nonresidential	186,407	247,168	200,970	175,277	215,008
Total All Building	<u>280,827</u>	<u>342,283</u>	<u>338,354</u>	<u>312,469</u>	<u>411,048</u>
<u>New Dwelling Units:</u>					
Single Family	167	292	389	476	678
Multiple Family	116	42	50	14	14
Total	<u>283</u>	<u>334</u>	<u>439</u>	<u>490</u>	<u>692</u>

Source: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

## Median Household Income

The following table summarizes the total effective buying income and the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

### CITY OF MODESTO, STANISLAUS COUNTY STATE OF CALIFORNIA AND UNITED STATES Median Household Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2012	City of Modesto	\$ 3,444,910	\$ 40,625
	Stanislaus County	8,213,148	39,104
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Modesto	3,315,645	36,092
	Stanislaus County	8,164,105	38,183
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Modesto	3,540,195	39,058
	Stanislaus County	8,644,033	40,665
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Modesto	3,882,303	41,626
	Stanislaus County	9,747,128	44,099
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Modesto	4,171,580	44,548
	Stanislaus County	10,090,714	45,932
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

Source: Nielsen, Inc.

## APPENDIX B

### DISTRICT AND GENERAL SCHOOL DISTRICT FINANCIAL 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 and interest on the Bonds is payable from the general fund of the District or from State revenues. The Bonds are payable solely from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State 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 Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" in the Official Statement.*

#### **Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System**

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts. Commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education. In Fiscal Year 2013-14, State legislation replaced the majority of revenue limit and categorical funding formulas with a new set of funding formulas. The new formula for school funding is known as the "Local Control Funding Formula" (the "Local Control Funding Formula" or "LCFF"). The State budget provided funding in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The new system provides a base rate per student multiplied by the school district's average daily attendance ("ADA") for each of several grade levels. The base rates are augmented by several funding supplements such as for (1) students needing additional services, defined as English learners, students from lower income families, and foster youth; and (2) school districts with high concentrations of English learners and lower income families. The new funding system requires school districts to develop local control and accountability plans describing how the school district intends to educate its students and achieve annual education goals to be achieved in state-mandated areas of priority.

Under the prior system, California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the school district's ADA. The base revenue limit was calculated from the school district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district 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 was 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. A school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such 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 a LCFF district.

The Local Control Funding Formula is also based on ADA. ADA can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in ADA will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

### **Average Daily Attendance**

In the past, annual State apportionments of basic and equalization aid to school districts were computed based on a revenue limit per unit of ADA. Prior to Fiscal Year 1998-99, daily attendance numbers included students who were absent from school for an excused absence, such as illness. Effective in Fiscal Year 1998-99, only actual attendance is counted in the calculation of ADA. This change was essentially fiscally neutral for school districts which maintain the same excused absence rate. The rate per student was recalculated to provide the same total funding to school districts in the base year as would have been received under the old system. After Fiscal Year 1998-99, school districts which improved their actual attendance rate received additional funding.

As indicated above, commencing with the Fiscal Year 2013-14, the State budget restructured the manner in which the State allocates funding for K-12 education using the Local Control Funding Formula. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. The following table shows the District’s enrollment, ADA and revenue limit per ADA for 2011-12 through 2012-13 under the historical funding program and for 2013-14 through 2017-18 under the Local Control Funding Formula.

#### **AVERAGE DAILY ATTENDANCE, REVENUE LIMIT/LCFF AND ENROLLMENT Fiscal Years 2011-12 to 2017-18**

Fiscal Year	Average Daily Attendance <sup>(1)</sup>	Revenue Limit/LCFF Revenues <sup>(2)</sup>	Enrollment <sup>(3)</sup>
2012-13	7,877.21	\$40,791,862	8,212
2013-14	7,854.67	49,042,838	8,187
2014-15	7,958.33	55,357,164	8,301
2015-16	7,865.44	62,632,422	8,217
2016-17	7,760.61	65,188,597	8,132
2017-18 <sup>(4)</sup>	7,690.87	66,005,027	8,044

Source: Sylvan Union School District

- (1) Except for fiscal year 2016-17, reflects ADA as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.
- (2) Deficit revenue limit funding, when provided for in State budgetary legislation, reduced the revenue limit allocations received by school districts by applying a deficit factor to the base revenue limit for the given fiscal year, and resulted from an insufficiency of appropriation funds in the State budget to provide for State aid owed to school districts. The State’s practice of deficit revenue limit funding was most recently reinstated beginning in Fiscal Year 2008-09, and discontinued following the implementation of the LCFF.
- (3) Except for fiscal year 2016-17, enrollment as of October report submitted to the California Basic Educational Data System (“CBEDS”) in each school year.
- (4) As projected in the District’s 2016-17 Unaudited Actuals, Adopted September 12, 2017.

*Effect of Changes in ADA.* Changes in local property tax income and student enrollment (or ADA) affect community funded districts and revenue limit districts, now known as “LCFF districts,” differently. In a LCFF district, such as the District, increasing enrollment increases the amount allocated under LCFF and thus generally increases a district’s entitlement to State aid, while increases in property taxes do nothing to increase district revenues, but only offset the State aid funding requirement. Operating costs typically increase disproportionately slower than enrollment growth until 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 aid, while operating costs typically decrease slowly until the district decides to lay off teachers, close schools, or initiate other cost-saving measures.

In community funded districts, the opposite is generally true: increasing enrollment does increase the amount allocated under LCFF, but since all LCFF income (and more) is already generated by local property taxes, there is typically no increase in State income. New students impose increased operating costs, but typically at a slower pace than enrollment growth, and the effect on the financial condition of a community funded district would depend on whether property tax growth keeps pace with enrollment growth. Declining enrollment typically 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.

For LCFF districts, any loss of local property taxes is made up by an increase in State aid. For community funded districts, the loss of tax revenues is not reimbursed by the State.

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

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State’s ability to meet the revenue and spending assumptions in the State’s adopted budget, and the effect of these changes on school finance. The District’s 2nd Interim Report and projected ADA are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District’s actual funding level for fiscal year 2017-18 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

## **District Budget**

The District is required by the provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 (“AB 1200”), which became State law on October 14, 1991. Portions of AB 1200 are summarized below. The budget process has been further amended by subsequent amendments, including Senate Bill 97, which became law on September 26, 2013 (requiring budgets to include sufficient funds to implement local control and accountability plans), Senate Bill 858, which became law on June 20, 2014 (requiring budgets’ ending fund balances to exceed the

minimum recommended reserve for economic uncertainties), and Assembly Bill 2585, which became State law on September 9, 2014 (eliminating the dual budget cycle option for school districts).

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, and will determine if the budget allows the district to meet its current obligations, if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments, whether the budget includes the expenditures necessary to implement a local control and accountability plan, and whether the budget's ending fund balance exceeds the minimum recommended reserve for economic uncertainties.

On or before August 15, the county superintendent will approve, conditionally approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district boards must be notified by August 15 of the county superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget may be disapproved.

For districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. No later than October 8, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years.

The District's 2nd Interim Report for fiscal year 2016-17 was certified as "Positive." The District has not received a qualified or negative certification in any of the last five years. The District adopted its 2017-18 Budget on June 20, 2017.



## **Accounting Practices**

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to section 41010 of the California Education Code, is to be followed by all California school districts.

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

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

## **Financial Statements**

The District's general fund finances the basic operating activities of the District. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the fiscal year ended June 30, 2016, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the District, 34200 Alvarado-Niles Road, Modesto, California 94587, telephone number (510) 471-1100. Copies of such financial statements will be mailed to prospective investors and their representatives upon request directed to the District at such address. For further information, see also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016.

The following table shows the District's audited revenues, expenditures and changes in fund balances for the 2013-14 through 2015-16 fiscal years, the unaudited revenues, expenditures and changes in fund balances for the 2016-17 fiscal year and budgeted projections for 2017-18.

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**Fiscal Years 2013-14 to 2017-18**

	Fiscal Year				
	2013-14 <sup>(1)</sup>	2014-15 <sup>(1)</sup>	2015-16 <sup>(1)</sup>	2016-17 <sup>(1)(2)</sup>	2017-18 <sup>(1)(2)</sup>
	Audited	Audited	Audited	Unaudited	Budget
<b>REVENUES</b>					
Revenue Limit/LCFF Sources <sup>(1)</sup>	\$ 49,042,838	\$ 55,357,164	\$ 62,329,422	\$ 65,188,597	\$ 66,005,027
Federal Sources	4,295,659	4,214,716	4,341,642	4,603,499	4,635,826
Other State Sources	3,609,864	2,929,547	7,333,118	4,201,260	2,327,853
Other Local Sources	3,869,493	4,726,714	4,022,953	4,874,078	3,974,383
Total Revenues	60,817,854	67,228,141	78,027,135	78,867,435	76,943,089
<b>EXPENDITURES</b>					
Certificated Salaries	31,339,726	34,264,076	36,894,901	38,407,868	39,043,940
Classified Salaries	9,058,680	9,884,512	11,209,832	11,561,704	12,633,009
Employee Benefits	10,388,319	11,319,935	12,680,164	13,639,758	15,830,644
Books and Supplies	2,514,995	3,067,522	2,885,320	4,388,588	5,314,144
Contract Services and Op. Ex.	4,692,356	5,454,302	9,313,994	8,326,104	8,896,146
Capital Outlay	12,637	156,288	674,662	1,680,374	3,048,604
Other Outgo	1,329,245	1,158,236	1,446,093	1,462,277	1,544,311
Debt Service - Principal	8,236	-	-	-	-
Debt Service - Interest	764	-	-	-	-
Total Expenditures	59,344,958	65,304,871	75,104,966	79,466,675	86,310,798
Excess of Revenues over Expenditures	1,472,896	1,923,270	2,922,169	(599,238)	(9,367,709)
<b>OTHER FINANCING SOURCES</b>					
Operating transfers in	107,171	300,000	-	-	-
Operating transfers out	-	(681,100)	(581,100)	(562,000)	(562,000)
Other sources	-	-	617,840	843,860	-
Total financing sources (uses)	107,171	(381,100)	36,740	281,860	(562,000)
Net change in fund balances	1,580,067	1,542,170	2,958,909	(317,379)	(9,929,709)
Fund Balance, July 1	15,413,328	16,914,781	18,456,951	21,415,860	21,098,480
Fund Balance, June 30	16,933,395	18,456,951	21,415,860	21,098,480	11,168,771

Source: Sylvan Union School District 2015-16 audited financial statements and 2016-17 Unaudited Actuals.

(1) Beginning in FY2013-14 the Local Control Funding Formula (LCFF) has replaced the prior revenue limit system of funding.

(2) From the District's 2016-17 Unaudited Actuals, adopted September 12, 2017.

### Summary of District Revenues and Expenditures

The District's audited financial statements for the year ending June 30, 2016, are reproduced in Appendix C. 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 Board by September 15, and the audit report must be filed with the County Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 3% of its total general

fund expenditures, based on total student attendance below 30,000. For fiscal year 2017-18, the District has budgeted an unrestricted general fund reserve of 3%, or approximately \$2,606,184. Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer-Tax Collector on behalf of the District, pursuant to law and the investment policy of the County. See “INVESTMENT OF DISTRICT FUNDS” in the front portion of this Official Statement.

*Local Control Funding Formula.* The State Constitution requires that from all State revenues there will be funds set aside to be allocated by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from these State allocations. The general operating income of school districts in California is comprised of two major components: (i) a State portion funded from the State’s general fund, and (ii) a local portion derived from the School District’s share of the 1% local *ad valorem* tax authorized by the State Constitution. School districts may also be eligible for special categorical and grant funding from State and federal government programs.

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

The LCFF includes the following components:

- An average base grant for each local education agency equivalent to \$7,643 per unit of ADA (by the end of the implementation period). 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 high schools. It should be noted that the authorizing LCFF statute, AB 97, provides for a differentiated base grant amount according to four different grade spans: K-3, 4-6, 7-8, and 9-12. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site by the target year so as to continue receiving its adjustment to the K-3 base grant.
- A 20% supplemental grant for students classified as English learners (“EL”), those eligible to receive a free or reduced price meal (“FRPM”) and foster youth, to reflect increased costs associated with educating those students. These supplemental grants are only attributed to each eligible student once, and the total student population eligible for the additional funding is known as an “unduplicated count.”
- An additional concentration grant equal to 50% of a local education agency’s base grant, based on the number of unduplicated EL, FRPM and foster youth served by the local agency that comprise more than 55% of the school district’s or charter school’s total enrollment.

The following table shows a breakdown of the District's ADA by grade span, total enrollment, and the percentage of EL/LI student enrollment, for fiscal years 2013-14 through 2017-18.

**ADA, ENROLLMENT AND EL/LI ENROLLMENT PERCENTAGE**  
**Fiscal Years 2013-14 through 2017-18**

Fiscal Year	Average Daily Attendance				Total District ADA	Total District Enrollment <sup>(2)</sup>	% of EL/LI Enrollment <sup>(3)</sup>
	K-3	4-6	7-8	9-12			
2013-14	3,314.89	2,659.67	1,880.11	—	7,854.67	8,187	54.64
2014-15	3,343.17	2,714.46	1,900.70	—	7,958.33	8,301	54.65
2015-16	3,279.50	2,641.43	1,944.51	—	7,865.44	8,217	55.00
2016-17 <sup>(1)</sup>	3,275.56	2,593.68	1,891.37	—	7,760.61	8,132	54.94
2017-18 <sup>(4)</sup>	3,394.39	3,445.26	1,851.22	—	7,690.87	8,044	54.92

Source: Sylvan Union School District

(1) Reflects P-2 ADA.

(2) Reflects CBEDS enrollment.

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

(4) As projected in the District's 2016-17 Budget, adopted June 20, 2017.

Of the more than \$25 billion in funding to be invested through the LCFF through full implementation of the LCFF, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested through the LCFF, 84 cents will go to base grants, 10 cents will go to supplemental grants, and 6 cents will go to concentration grants. Under the 2013-14 State Budget, the target average base grant was \$7,643, which was an increase of \$2,375 from the prior year's average revenue limit. Base grants are adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. Following full implementation of the LCFF, the provision of COLAs will be subject to appropriation for such adjustment in the annual State budget. The differences among base grants are linked to differentials in Statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels. For certain school districts that would have received greater funding levels under the prior revenue limit system, the LCFF provides for a permanent economic recovery target ("ERT") add-on, equal to the difference between the revenue limit allocations such districts would have received under the prior system in Fiscal Year 2020-21, and the target LCFF allocations owed to such districts in the same year. To derive the projected funding levels, the LCFF assumes the discontinuance of deficit revenue limit funding and restoration of categorical funding to pre-recession levels. The sum of a school district's adjusted base, supplemental and concentration grants will be multiplied by such district's Second Principal Apportionment (P-2) ADA for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with categorical block grant add-ons, will yield a school district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and the individual school district's share of applicable local property taxes allocations. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues in a particular year may significantly affect appropriations made by the State Legislature to school districts.

The new legislation includes a “hold harmless” provision which provides that a school district or charter school will maintain total revenue limit and categorical funding at its Fiscal Year 2012-13 level, unadjusted for changes in ADA, or cost of living adjustments.

A summary of the target LCFF funding amounts for California school districts and charter schools based on grade levels and targeted students classified as English learners, those eligible to receive a free or reduced price meal, foster youth, or any combination of these factors (“unduplicated” count) is shown below:

**CALIFORNIA SCHOOL DISTRICTS AND CHARTER SCHOOLS  
GRADE SPAN FUNDING AT FULL LCFF IMPLEMENTATION  
LOCAL CONTROL TARGET FUNDING FORMULA 2017-18**

Grade Levels	2016-17 Base Grants per ADA	2017-18 COLA (0.00%)	Grade Span Adjustments	2017-18 Grant/Adjusted Base Grant per ADA
TK-3	\$ 7,083	\$ 110	\$748	\$ 7,941
4-6	7,189	112	—	7,301
7-8	7,403	115	—	7,518
9-12	8,578	134	227	8,939

Source: California Department of Education

Beginning July 1, 2015, school districts are required to develop a three-year Local Control and Accountability Plan (each, a “LCAP”). County Superintendent of Schools and the State Superintendent of Public Instruction will review and provide support to school districts and county offices of education under their jurisdiction. In addition, the 2013-14 State budget created the California Collaborative for Education Excellence (the “Collaborative”) to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The State Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction has authority to make changes to school district or county office’s local plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation. The State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

*Federal Sources.* The federal government provides funding for several District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Education for Economic Security, and the free and reduced lunch program.

*Other State Sources.* In addition to LCFF revenues, the District receives substantial other State revenues. The LCFF replaced most of the State categorical program funding that existed prior to Fiscal Year 2013-14. Categorical funding for certain programs was excluded from the LCFF, and school districts continue to receive restricted State revenues to fund these programs. These other State revenues are

primarily restricted revenue funding items such as the Special Education Master Plan, Economic Impact Aid, and Tier 3 Funding.

Other State revenues include the California State Lottery (the “Lottery”), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research.

*Other Local Sources.* In addition to property taxes, the District receives additional local revenues from items such as leases and rentals, interest earnings, transportation fees, interagency services, and other local sources.

## District Expenditures

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.

*Labor Relations.* Currently the District employs 458 full-time equivalent (FTE) certificated employees and 287.98 FTE classified employees. There are 2 formal bargaining organizations operating in the District which are described in the table below.

### LABOR ORGANIZATIONS

Labor Organization	FTE Number of Employees	Current Expiration Date
SEA (Sylvan Educators Association)	465.6	6/30/2018
California Schools Employees Association	414.0	6/30/2020

Source: Sylvan Union School District.

## District Retirement Programs

*The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.*

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

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. In recent years, the combined employer, employee and State contributions to the STRS Defined Benefit Program have not been sufficient to pay actuarially required amounts. As a result, and due to significant investment losses, the unfunded actuarial liability of the STRS Defined Benefit Program has increased significantly in recent fiscal years. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued, and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State recently passed the legislation described below to increase contribution rates.

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

**MEMBER CONTRIBUTION RATES**  
**STRS Defined Benefit Program**

Effective Date	STRS Members Hired Prior to January 1, 2013	STRS Members Hired After January 1, 2013
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200%	8.560%
July 1, 2016	10.250%	9.205%

Source: AB 1469.

Pursuant to AB 1469, K-14 school districts’ contribution rate will increase over a seven-year phase-in period in accordance with the following schedule:

**K-14 SCHOOL DISTRICT CONTRIBUTION RATES**  
**STRS Defined Benefit Program**

Effective Date	K-14 School District
July 1, 2014	8.88%
July 1, 2015	10.73%
July 1, 2016	12.58%
July 1, 2017	14.43%
July 1, 2018	16.28%
July 1, 2019	18.13%
July 1, 2020	19.10%

Source: AB 1469.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter, the STRS Teachers’ Retirement Board (the “STRS Board”) is required to increase or

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

The District's contribution to STRS for the five most recent fiscal years was as follows:

	District STRS
<u>Fiscal Year</u>	<u>Contribution</u>
2012-13	\$ 2,382,967
2013-14	2,571,508
2014-15	3,013,162
2015-16	3,938,936
2016-17 <sup>(1)</sup>	4,866,945
2017-18 <sup>(2)</sup>	5,690,664

Source: Sylvan Union School District

(1) Unaudited actuals

(2) Projected

The State also contributes to STRS, currently in an amount equal to 6.328% of teacher payroll for fiscal year 2016-17. The State's contribution reflects a base contribution rate of 2.017%, and a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. In addition, the State is currently required to make an annual general fund contribution up to 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

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



after five years of credited service. One of the plans operated by PERS is for K-14 school districts throughout the State (the “Schools Pool”).

Contributions by employers to the Schools Pool are based upon an actuarial rate determined annually and contributions by plan members vary based upon their date of hire. The District is currently required to contribute to PERS at an actuarially determined rate, which was 11.847% of eligible salary expenditures for fiscal year 2015-16 and 13.888% in fiscal year 2016-17. Participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 6% of their respective salaries for fiscal years 2015-16 and 2016-17. See “—California Public Employees’ Pension Reform Act of 2013” herein.

The District’s contribution to PERS for the five most recent fiscal years was as follows:

	District PERS
<u>Fiscal Year</u>	<u>Contribution</u>
2012-13	\$ 981,026
2013-14	1,092,767
2014-15	1,222,377
2015-16	1,339,311
2016-17 <sup>(1)</sup>	1,612,689
2017-18 <sup>(2)</sup>	2,155,545

Source: Sylvan Union School District

(1) Unaudited actuals

(2) Projected

For further information about the District’s contributions to STRS and PERS, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016—Note 12.

*State Pension Trusts.* Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference. Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for both STRS and PERS. Actuarial assessments are “forward-looking” information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

**FUNDED STATUS**  
**STRS (Defined Benefit Program) and PERS**  
**(Dollar Amounts in Millions)(1)**  
**Fiscal Years 2010-11 through 2015-16**

STRS					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)(2)	Unfunded Liability (MVA)(2)(3)	Value of Trust Assets (AVA)(4)	Unfunded Liability (MVA)(4)
2010-11	\$208,405	\$147,140	\$68,365	\$143,930	\$64,475
2011-12	\$215,189	\$143,118	\$80,354	\$144,232	\$70,957
2012-13	\$222,281	\$157,176	\$74,374	\$148,614	\$73,667
2013-14	\$231,213	\$179,749	\$61,807	\$158,495	\$72,718
2014-15	\$241,753	\$180,633	\$72,626	\$165,553	\$76,200
2015-16	\$266,704	\$177,914	\$101,586	\$169,976	\$96,728

  

PERS					
Fiscal Year	Accrued Liability	Value of Trust Assets (MVA)(2)	Unfunded Liability (MVA)(2)(3)	Value of Trust Assets (AVA)(4)	Unfunded Liability (MVA)(4)
2010-11	\$58,358	\$45,901	\$12,457	\$51,547	\$6,811
2011-12	\$59,439	\$44,854	\$14,585	\$53,791	\$5,648
2012-13	\$61,487	\$49,482	\$12,005	\$56,250	\$5,237
2013-14	\$65,600	\$56,838	\$8,761	— <sup>(5)</sup>	— <sup>(5)</sup>
2014-15	\$73,325	\$56,814	\$16,511	— <sup>(5)</sup>	— <sup>(5)</sup>
2015-16	\$75,663	\$55,912	\$19,750	— <sup>(5)</sup>	— <sup>(5)</sup>

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

(1) Amounts may not add due to rounding.

(2) Reflects market value of assets.

(3) Excludes assets allocated to the SBPA reserve.

(4) Reflects actuarial value of assets.

(5) Effective for the June 30, 2014 actuarial valuation, PERS no longer uses an actuarial value of assets.

The STRS Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the STRS Defined Benefit Program. The following are certain of the actuarial assumptions adopted by the STRS Board with respect to the STRS Defined Benefit Program Actuarial Valuation for fiscal year 2015-16: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” 7.25% investment rate of return (net of investment and administrative expenses), 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation. According to the STRS Defined Benefit Program Actuarial Valuation, as of June 30, 2016, the future revenue from contributions and appropriations for the STRS Defined Benefit Program was projected to be sufficient to finance its obligations. This finding reflects the scheduled contribution increases specified in AB 1469 and is based on the valuation assumptions and the valuation policy adopted by the STRS Board.

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

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

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

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The new actuarial assumptions will first be reflected in the Schools Pool in the June 30, 2015 actuarial valuation. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State, K-14 school districts and all other public agencies.

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

*California Public Employees' Pension Reform Act of 2013.* On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 (the "Reform Act"), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the "Implementation Date"). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the

eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (previously 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

*GASB Statement Nos. 67 and 68.* On June 25, 2012, GASB approved Statements Nos. 67 and 68 (the “Statements”) with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government’s balance sheet (currently, such unfunded liabilities are typically included as notes to the government’s financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of the Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense based on its proportionate share of the net pension liability for benefits provided through the pension plan. Because the accounting standards do not require changes in funding policies, the full extent of the effect of the new standards on the District is not known at this time. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the District, took effect for the fiscal year beginning July 1, 2014.

The District’s proportionate shares of the net pension liabilities, pension expense, deferred outflow of resources and deferred inflow of resources for STRS and PERS, as of June 30, 2016, are as shown in the following table.

Pension Plan	Net Pension Liability	Deferred Outflows Related to Pensions	Deferred Inflows Related to Pensions	Pension Expenses
STRS	\$ 48,402,683	\$ 5,256,419	\$ 4,754,425	\$ 3,967,912
PERS	13,738,668	2,714,865	1,314,566	1,489,165
Totals	62,141,351	7,971,284	6,068,991	5,457,077

Source: Sylvan Union School District.

For additional information, see APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016—Note 13.

### Other Post-Employment Benefits

*Post-Employment Health Care Plan and Other Postemployment Benefits (OPEB) Obligation.* The Postemployment Benefits Plan (the “Plan”) is a single-employer defined benefit healthcare plan administered by the Sylvan Union School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 29 retirees and beneficiaries currently receiving benefits and 815 active plan members. The Plan is presented in these financial statements as the Retiree Benefits Trust Fund. Separate financial statements are not prepared for the Trust.

*Funding Policy.* The District’s contribution is currently based on a pay-as-you-go funding method, that is, benefits are payable when due.

As of June 30, 2016, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the Plan and that is legally protected from creditors.

*Annual OPEB Cost and Net OPEB Obligation.* The District’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB asset to the Plan:

#### OPEB OBLIGATIONS Fiscal Year 2015-16

Annual required contribution	\$ 759,915
Interest on net OPEB obligation	132,262
Adjustment to annual required contribution	(131,406)
Annual OPEB cost (expense)	<u>760,771</u>
Contributions made	<u>(348,364)</u>
Increase in net OPEB obligation	412,407
Net OPEB obligation, beginning of the year	3,306,556
Net OPEB obligation, end of the year	3,718,963

Source: Sylvan Union School District 2015-16 Audited Financial Statements.

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset/obligation is as follows:

#### HISTORICAL OPEB OBLIGATIONS

Fiscal Years 2011-12 to 2015-16

Fiscal Year	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2015-16	\$ 760,771	46%	\$ 3,718,963
2014-15	1,181,047	29	3,306,556
2013-14	1,181,608	33	2,469,788

Source: Sylvan Union School District 2015-16 Audited Financial Statements.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

See also APPENDIX C—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2016, Note 11.

#### District Debt Structure

*Short Term Bonds.* The District has no short term debt outstanding.

*General Obligation Bonds.* The following table shows the District's outstanding general obligation bonds, excluding the Bonds of this issue.

#### General Obligation Bonded Debt

Issue Date	Series	Amount of Original Issue	Final Maturity	Outstanding As of 9/30/17 <sup>(1)</sup>
6/17/10	Election of 2006, Series 2010	\$11,996,168.50	8/1/2049	\$11,929,093
8/30/16	2016 Refunding Bonds	17,315,000.00	8/1/2030	16,535,000
		<u>\$34,171,168.50</u>		<u>\$28,464,093</u>

(1) The outstanding amount of the capital appreciation bonds does not include accreted interest.

### General Obligation Bond Debt Service

The following table shows the annual debt service obligations for all outstanding bonds of the District, excluding the Bonds of this issue:

Fiscal Year Year Ending June 30	2010 Bonds	2016 Bonds	As of 9/30/17 Total Annual Debt Service
2018	\$ 40,000	\$ 1,473,500	\$ 1,513,500
2019	50,000	1,241,450	1,291,450
2020	55,000	1,300,700	1,355,700
2021	70,000	1,355,450	1,425,450
2022	75,000	1,420,325	1,495,325
2023	85,000	1,489,700	1,574,700
2024	90,000	1,558,200	1,648,200
2025	100,000	1,630,450	1,730,450
2026	115,000	1,696,200	1,811,200
2027	125,000	1,774,950	1,899,950
2028	140,000	1,851,075	1,991,075
2029	155,000	1,938,300	2,093,300
2030	165,000	2,047,050	2,212,050
2031	185,000	2,131,100	2,316,100
2032	2,590,000	—	2,590,000
2033	3,050,000	—	3,050,000
2034	3,196,990	—	3,196,990
2035	3,356,990	—	3,356,990
2036	3,521,990	—	3,521,990
2037	3,696,990	—	3,696,990
2038	3,881,990	—	3,881,990
2039	4,076,990	—	4,076,990
2040	4,276,870	—	4,276,870
2041	4,487,798	—	4,487,798
2042	4,712,778	—	4,712,778
2043	4,944,483	—	4,944,483
2044	5,190,918	—	5,190,918
2045	5,449,423	—	5,449,423
2046	5,717,338	—	5,717,338
2047	6,002,003	—	6,002,003
2048	6,300,093	—	6,300,093
2049	6,613,283	—	6,613,283
2050	6,942,915	—	6,942,915
TOTAL	<u>\$89,489,842</u>	<u>\$23,202,606</u>	<u>\$113,030,448</u>

*Other Obligation.* The District entered into a loan agreement with the California Energy Commission (CEC) during the 2015-2016 fiscal year. The proceeds from the loan will be used for energy efficiency projects within the District. The loan was offered with a zero percent interest rate, and the District will commence repayment beginning the 2016-2017 fiscal year. Proceeds from the first draw-down request in the amount of \$617,840 were received during the 2015-2016 fiscal year. As of June 30, 2016, the District had an outstanding CEC loan balance of \$617,840.

## Recent State Budgets

*Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2017-18 State Budget further described below 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.” Additionally, an impartial analysis of the State’s Budgets is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.*

### Final 2017-18 State Budget

On June 27, 2017, the Governor signed the 2017-18 State Budget (the “Final 2017-18 State Budget”). The additional spending added to the Final 2017-18 State Budget since the May Revision is primarily one-time in nature, which avoids ongoing commitments that would put pressure on future state budgets.

The Final 2017-18 State Budget includes total general fund spending of \$125 billion, with a funding increase of more than \$3 billion for K-12 education (approximately \$1 billion more than the Governor proposed in the 2017-18 Proposed Budget) and an expanded tax credit for low-wage workers. The Final 2017-18 State Budget allocates \$2.8 billion (expected from increases in the gas tax and vehicle registration fees) to be applied to road repairs, transit and other transportation infrastructure projects and proposes to spend portions of more than \$1 billion the State expects to receive each year from the tobacco tax (approved by California voters in November of 2016) that would allow raising reimbursement rates for doctors and dentists who provide publicly funded care (\$465 million) and for other providers, including those working in women’s health (\$81 million). While the Final 2017-18 State Budget also includes \$1.8 billion to the State’s reserve fund, it does not include an extension of the State’s program for the regulation of climate-warming greenhouse gases known as “cap and trade,” which is set to expire in 2020.

*Significant provisions in the Final 2017-18 State Budget relating to K-12 education.* The Final 2017-18 State Budget includes total funding of \$92.5 billion (\$54.1 billion from the General Fund and \$38.4 billion from other funds) for all K-12 education programs, plus Proposition 98 funding of \$74.5 billion for Fiscal Year 2017-18, an increase of \$2.6 billion over the 2016 Budget Act level. Significant features of the Final 2017-18 State Budget affecting K-12 schools include the following:

- *Local Control Funding Formula.* An increase of almost \$1.4 billion in Proposition 98 General Fund monies to continue the State’s transition to the LCFF, an increase that will bring the LCFF to 97% of full implementation.
- *One Time Discretionary Grants.* An increase of \$877 million in Proposition 98 General Fund monies to provide school districts, county offices of education, and charter schools with discretionary resources to support critical investments at the local level to be used for activities such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and implementation of new educational standards.
- *After School and Education Safety (ASES) Program.* An increase of \$50 million in Proposition 98 General Fund monies to increase provider reimbursement rates for the ASES program, bringing the total spending on the program to \$600 million.



- *Teacher Workforce.* A combined increase of \$41.3 million in one-time (\$30 million in one-time Proposition 98 General Fund monies 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.
- *California Educator Development Program.* An increase of \$11.3 million in onetime federal Title II funds for a competitive grant program that assists 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.* An increase of \$25 million in onetime Proposition 98 General Fund monies, available for five years, to support a second cohort of the California Classified School Employees Credentialing Program established in the 2016 Budget Act.
- *Bilingual Professional Development Program.* An increase of \$5 million in onetime Proposition 98 General Fund monies for onetime competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.
- *Charter School Facility Grant Program.* An increase in the per student funding rate to \$1,117 for Fiscal Year 201718 and an ongoing cost-of-living adjustment for the program moving forward.
- *Refugee Student Support.* An increase of \$10 million in onetime Proposition 98 General Fund monies to provide additional services for refugee students transitioning to a new learning environment.

## **Future State Budgets**

The District receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the District and other school districts in the State.

The District cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the District cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the District has no control.

## **Supplemental Information Concerning Litigation Against the State of California**

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making

payments including those made pursuant to continuing appropriations prior to the enactment of the State's annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

### Article XIII A of the 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, but only if certain accountability measures are included in 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 restored value of the damaged property. The State 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 State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

### **Legislation Implementing Article XIII A**

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

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

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

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

### **Article XIII B of the California Constitution**

Article XIII B of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

(a) “change in the cost of living” with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) “change in population” with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government will be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for certain debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it will be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution.

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

### **California Lottery**

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery, the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further

requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. The District estimates that it received \$1,577,349 in Lottery aid in fiscal year 2016-17, representing approximately 2% of the District's general fund revenues. At this time, the amount of additional revenues that may be generated by the Lottery in any given year cannot be predicted.

#### **Proposition 46**

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

#### **Proposition 39**

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

Section 1(b)(3) of Article XIII A has been added to exempt the 1% *ad valorem* tax limitation that Section 1(a) of Article XIII A of the Constitution levies, to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

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

Alternatively, charter schools are independent public schools formed by teachers, parents, and other individuals and/or groups. The schools function under contracts or “charters” with local school districts, county boards of education, or the State Board of Education. They are exempt from most State laws and regulations affecting public schools. As of June 2000, there were 309 charter schools in California, serving about 105,000 students (less than 2% of all K-12 students). The law permits an additional 100 charter schools each year until 2003, at which time the charter school program will be reviewed by the Legislature. Under current law, school districts must allow charter schools to use, at no charge, facilities not currently used by the district for instructional or administrative purposes.

Proposition 39 requires that each local K-12 school district provide charter school facilities sufficient to accommodate the charter school’s students. A K-12 school district, however, would not be required to spend its general discretionary revenues to provide these facilities for charter schools. Instead, the district could choose to use these or other revenues — including State and local bonds. Such facilities must be reasonably equivalent to the district schools that such charter students would otherwise attend. The respective K-12 school district is permitted charge the charter school for its facilities if district discretionary revenues are used to fund the facilities and a district may decline to provide facilities for a charter school with a current or projected enrollment of fewer than 80 students who are residents in the District.

#### **Article XIII C and XIII D of the California Constitution**

On November 5, 1996, an initiative to amend the California Constitution known as the “Right to Vote on Taxes Act” (“Proposition 218”) was approved by a majority of California voters. Proposition 218 added Articles XIII C and XIII D to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as “general taxes” (defined as those used for general governmental purposes) or “special taxes” (defined as taxes for a specific purpose even if the revenues flow through the local government’s general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District’s voters, depending upon the Article of the Constitution under which it is passed.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the February 6, 1995 State Supreme

Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District's ability to pursue approval of a general obligation bond or a Mello-Roos Community Facilities District bond in the future, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

### **Propositions 98 and 111**

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

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

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent



years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the “Traffic Congestion Relief and Spending Limit Act of 1990” (“Proposition 111”) which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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

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

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

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for “qualified capital outlay projects” as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State

general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “first test”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 30 and Proposition 55**

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increased the State Sales and Use Tax (which expired on January 1, 2017) and personal income tax rates on higher incomes. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and through the taxable year ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for head-of-household filers and over \$500,000 but less than \$600,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for head-of-household filers and over \$600,000 but less than \$1,000,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$680,000 for head-of-household filers and over \$1,000,000 for joint filers).

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

The California Children’s Education and Health Care Protection Act of 2016, also known as Proposition 55, a constitutional amendment initiative, was approved by California voters at the November 8, 2016 general election in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Tax revenue

received under Proposition 55 will be allocated 89% to K-12 schools and 11% to community colleges. The sales and use tax rate increase under Proposition 30 will not be extended.

## **Proposition 2**

Proposition 2, also known as The Rainy Day Budget Stabilization Fund Act (“Proposition 2”) was approved by California voters on November 8, 2016. Proposition 2 provides for changes to State budgeting practices, including revisions to certain conditions under which transfers are made into and from the State’s Budget Stabilization Account (the “Stabilization Account”) established by the California Balanced Budget Act of 2004 (also known as Proposition 58). Commencing in Fiscal Year 2015-16 and for each Fiscal Year thereafter, the State is required to make an annual transfer to the Stabilization Account in an amount equal to 1.5% of estimated State general fund revenues (the “Annual Stabilization Account Transfer”). For a Fiscal Year in which the estimated State general fund revenues allocable to capital gains taxes exceed 8% of the total estimated general fund tax revenues, supplemental transfers to the Stabilization Account (a “Supplemental Stabilization Account Transfer”) are also required. Such excess capital gains taxes, which are net of any portion thereof owed to K-14 school districts pursuant to Proposition 98, are required to be transferred to the Stabilization Account.

In addition, for each Fiscal Year, Proposition 2 increases the maximum size of the Stabilization Account to 10% of estimated State general fund revenues. Such excess amounts are to be expended on State infrastructure, including deferred maintenance, in any Fiscal Year in which a required transfer to the Stabilization Account would result in an amount in excess of the 10% threshold. For the period from Fiscal Year 2015-16 through Fiscal Year 2029-30, Proposition 2 requires that half of any such transfer to the Stabilization Account (annual or supplemental), shall be appropriated to reduce certain State liabilities, including repaying State interfund borrowing, reimbursing local governments for State mandated services, making certain payments owed to K-14 school districts, and reducing or prefunding accrued liabilities associated with State-level pension and retirement benefits. After Fiscal Year 2029-30, the Governor and the Legislature are given discretion to apply up to half of any required transfer to the Stabilization Account to the reduction of such State liabilities and any amount not so applied shall be transferred to the Stabilization Account or applied to infrastructure, as set forth above.

Accordingly, the conditions under which the Governor and the Legislature may draw upon or reduce transfers to the Stabilization Account are impacted by Proposition 2. Unilateral discretion to suspend transfers to the Stabilization Account are not retained by the Governor. Neither does the Legislature retain discretion to transfer funds from the Stabilization Account for any reason, as was previously provided by law. Instead, the Governor must declare a “budget emergency” (defined as an emergency within the meaning of Article XIII B of the Constitution) or a determination that estimated resources are inadequate to fund State general fund expenditure, for the current or ensuing Fiscal Year, at a level equal to the highest level of State spending within the three immediately preceding Fiscal Years, and any such declaration must be followed by a legislative bill providing for a reduction or transfer. Draws on the Stabilization Account are limited to the amount necessary to address the budget emergency, and no draw in any Fiscal Year may exceed 50% of the funds on deposit in the Stabilization Account, unless a budget emergency was declared in the preceding Fiscal Year.

Proposition 2 also provides for the creation of a Public School System Stabilization Account (the “Public School System Stabilization Account”) into which transfers will be made in any Fiscal Year in which a Supplemental Stabilization Account Transfer is required, requiring that such transfer will be equal to the portion of capital gains taxes above the 8% threshold that would otherwise be paid to K-14

school districts as part of the minimum funding guarantee. Transfers to the Public School System Stabilization Account are only to be made if certain additional conditions are met, including that: (i) the minimum funding guarantee was not suspended in the immediately preceding Fiscal Year, (ii) the operative Proposition 98 formula for the Fiscal Year in which a Public School System Stabilization Account transfer might be made is “Test 1,” (iii) no maintenance factor obligation is being created in the budgetary legislation for the Fiscal Year in which a Public School System Stabilization Account transfer might be made, (iv) all prior maintenance factor obligations have been fully repaid, and (v) the minimum funding guarantee for the Fiscal Year in which a Public School System Stabilization Account transfer might be made is higher than the immediately preceding Fiscal Year, as adjusted for ADA growth and cost of living.

Under Proposition 2, the size of the Public School System Stabilization Account is capped at 10% of the estimated minimum guarantee in any Fiscal Year, and any excess funds must be paid to K-14 school districts. Any reductions to a required transfer to, or draws upon, the Public School System Stabilization Account, are subject to the budget emergency requirements as described above. However, in any Fiscal Year in which the estimated minimum funding guarantee is less than the prior year’s funding level, as adjusted for ADA growth and cost of living, Proposition 2 also mandates draws on the Public School System Stabilization Account.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

### **California Senate Bill 222**

Senate Bill 222 (“SB 222”) was signed by the California Governor on July 13, 2015 and became effective on January 1, 2016. SB 222 amended Section 15251 of the California Education Code and added Section 52515 to the California Government Code to provide that voter approved general obligation bonds which are secured by ad valorem tax collections such as the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those

bonds. Said lien shall attach automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the issuer, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act. The effect of SB 222 is the treatment of general obligation bonds as secured debt in bankruptcy due to the existence of a statutory lien.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution and Propositions 2, 22, 26, 30, 39, 46, 55 and 98 were each adopted as measure that qualified for the State 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. The nature and impact of these measures cannot be anticipated by the District.

**THIS PAGE INTENTIONALLY LEFT BLANK**

**APPENDIX C**

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

**THIS PAGE INTENTIONALLY LEFT BLANK**



**APPENDIX D**

**COUNTY INVESTMENT POLICY**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**APPENDIX E**  
**FORM OF OPINION OF BOND COUNSEL**

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Trustees of the  
Sylvan Union School District  
605 Sylvan Avenue  
Modesto, California 95350

**OPINION:** \$6,000,000\* Sylvan Union School District (Stanislaus County, California) General Obligation Bonds, Election of 2006, Series C (2017)

---

Members of the Board of Trustees:

We have acted as bond counsel to the Sylvan Union School District (the “District”) in connection with the issuance by the District of \$6,000,000\* principal amount of Sylvan Union School District (Stanislaus County, California) General Obligation Bonds, Election of 2006, Series C (2017) (the “Bonds”), pursuant to the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 (commencing with section 53506) of the California Government Code (the “Act”), and a resolution adopted by the Board of Trustees of the District on October 10, 2017 (the “Resolution”). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify such facts by independent investigation.

Based upon our examination, we are of the opinion, as of the date hereof, that:

1. The District is duly created and validly existing as a school district with the power to cause the Board to issue the Bonds in its name and to perform its obligations under the Resolution and the Bonds.
2. The Resolution has been duly adopted by the District and creates a valid first lien on the funds pledged under the Resolution for the security of the Bonds.
3. The Bonds have been duly authorized, executed and delivered by the Board and are valid and binding General obligations of the District. The Board of Supervisors of Stanislaus County is required under the Act to levy a tax upon all taxable property in the District for the interest and redemption of all outstanding bonds of the District, including the Bonds. The Bonds are payable from an *ad valorem* tax levied without limitation as to rate or amount.
4. Subject to the District’s compliance with certain covenants, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the “Code”), but is taken into account in computing an adjustment used in determining the

---

\* Preliminary, subject to change.

federal alternative minimum tax for certain corporations. Failure to comply with certain of such District covenants could cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. It is also our opinion that the Bonds are “qualified tax-exempt obligations” under section 265(b)(3) of the Code.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to the bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with General principles of equity.

Our opinion represents our legal judgment based upon such review of the law and the facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

## APPENDIX F

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the SYLVAN UNION SCHOOL DISTRICT (the “District”) in connection with the issuance by the District of its \$6,000,000\* Sylvan Union School District (Stanislaus County, California) General Obligation Bonds, Election of 2006, Series C (2017) (the “Bonds”). The Bonds are being issued pursuant to a resolution adopted by the Board of Education of the District on October 10, 2017 (the “Resolution”). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

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

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

“*Dissemination Agent*” shall mean Willdan Financial Services or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. In the absence of such a designation, the District shall act as the Dissemination Agent.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

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

“*Participating Underwriter*” shall mean the original underwriter of the Bonds, required to comply with the Rule in connection with offering of the Bonds.

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

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which currently ends on June 30), commencing with the

---

\* Preliminary, subject to change.

report for the 2016-17 Fiscal Year, which is due not later than March 31, 2018, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall send a notice in a timely manner to EMMA, in a timely manner, substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA, in a timely manner, in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance with generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited financial statements of the District, the Annual Report shall also include financial and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the corresponding tables and charts in the official statement for the Bonds, as follows:

- (i) The District's approved budget for the then current fiscal year;
- (ii) Assessed value of taxable property in the District as shown on the most recent equalized assessment role; and
- (iii) Property tax levies, collections and delinquencies for the District, for the most recent completed fiscal year.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

#### Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The District shall, or shall cause the Dissemination (if not the District) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (4) Substitution of credit or liquidity providers, or their failure to perform.
- (5) Defeasances.
- (6) Rating changes.
- (7) Tender offers.
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults.
- (2) Modifications to rights of security holders.
- (3) Bond calls.
- (4) The release, substitution, or sale of property securing repayment of the securities.
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of

Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Bond Resolution.

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

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Bondholder, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

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



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

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bondholders in the same manner as provided in the Bond Resolution for amendments to the Bond Resolution with the consent of Bondholders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners.

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

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

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Paying Agent under the Bond Resolution. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: [Closing Date]

SYLVAN UNION SCHOOL DISTRICT

By \_\_\_\_\_  
Authorized Officer

ACKNOWLEDGED:

WILLDAN FINANCIAL SERVICES, as  
Dissemination Agent

By \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer:           Sylvan Union School District

Name of Issue:           Sylvan Union School District (Stanislaus County, California) General Obligation Bonds,  
Election of 2006, Series C (2017)

Date of Issuance:       [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Issue as required by the Continuing Disclosure Certificate, dated [Closing Date], furnished by the Issuer in connection with the Issue. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

WILLDAN   FINANCIAL   SERVICES,   as  
Dissemination Agent

By \_\_\_\_\_  
Title \_\_\_\_\_

cc: Paying Agent

**THIS PAGE INTENTIONALLY LEFT BLANK**

## APPENDIX G

### BOOK-ENTRY SYSTEM

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in

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

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

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

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

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

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

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

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

securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

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

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

**THIS PAGE INTENTIONALLY LEFT BLANK**





