

NEW ISSUE — BOOK-ENTRY ONLY

Rating: Moody's: "[ ]"  
(See "MISCELLANEOUS – Rating" herein.)

*[In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Refunding Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix C hereto. See "TAX MATTERS" herein.]*

\$[ ]\*

**GILROY UNIFIED SCHOOL DISTRICT  
(SANTA CLARA COUNTY, CALIFORNIA)  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019  
(FEDERALLY TAXABLE)**

**Dated: Date of Delivery****Due: August 1, as shown herein**

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

The Gilroy Unified School District (Santa Clara County, California) General Obligation Refunding Bonds, Series 2019 (Federally Taxable) (the "Refunding Bonds"), are being issued by the Gilroy Unified School District (the "District"), located in the County of Santa Clara (the "County"). The proceeds from the Refunding Bonds will be used (i) to refund all of the outstanding Gilroy Unified School District (Santa Clara County, California) General Obligation Bonds, Election of 2008, Series 2013 and the Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2013 and the corresponding Gilroy School Facilities Financing Authority General Obligation Revenue Bonds, Series A, and (ii) to pay costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution of the Board of Education of the District, adopted on October 3, 2019.

The Refunding Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and 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), for the payment of principal of and interest on the Refunding Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS" herein.

The Refunding Bonds will be issued as current interest bonds as set forth on the inside front cover hereof. Interest on the Refunding Bonds is payable on each February 1 and August 1 to maturity, commencing February 1, 2020. Principal of the Refunding Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. The Refunding Bonds will be issued in denominations of \$5,000 principal amount or any integral multiple thereof as shown on the inside front cover hereof.

The Refunding 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 The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Refunding Bonds. Individual purchases of the Refunding Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Refunding Bonds purchased by them. See "THE REFUNDING BONDS – Form and Registration" herein. Payments of the principal of and interest on the Refunding Bonds will be made by The Bank of New York Mellon Trust Company, N.A., as paying agent, registrar and transfer agent with respect to the Refunding Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Refunding Bonds. See "THE REFUNDING BONDS – Payment of Principal and Interest" herein.

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

*The Refunding Bonds will be offered when, as and if issued by the District and received by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District; and for the Underwriter by Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, Sacramento, California, as Underwriter's Counsel. It is anticipated that the Refunding Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2019.*

**[Raymond James logo]**

Dated: \_\_\_\_\_, 2019

\* Preliminary; subject to change.

**MATURITY SCHEDULE\***  
**BASE CUSIP<sup>†</sup>: 376087**

\$[\_\_\_\_\_] \*  
**GILROY UNIFIED SCHOOL DISTRICT**  
**(SANTA CLARA COUNTY, CALIFORNIA)**  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019**  
**(FEDERALLY TAXABLE)**

\$\_\_\_\_\_ **Serial Refunding Bonds**

| Maturity<br>(August 1) | Principal<br>Amount | Interest<br>Rate | Yield | CUSIP<br>Number <sup>†</sup> |
|------------------------|---------------------|------------------|-------|------------------------------|
| 2020                   | \$                  | %                | %     |                              |
| 2021                   |                     |                  |       |                              |
| 2022                   |                     |                  |       |                              |
| 2023                   |                     |                  |       |                              |
| 2024                   |                     |                  |       |                              |
| 2025                   |                     |                  |       |                              |
| 2026                   |                     |                  |       |                              |
| 2027                   |                     |                  |       |                              |
| 2028                   |                     |                  |       |                              |
| 2029                   |                     |                  |       |                              |
| 2030                   |                     |                  |       |                              |
| 2031                   |                     |                  |       |                              |
| 2032                   |                     |                  |       |                              |
| 2033                   |                     |                  |       |                              |
| 2034                   |                     |                  |       |                              |
| 2035                   |                     |                  |       |                              |
| 2036                   |                     |                  |       |                              |
| 2037                   |                     |                  |       |                              |
| 2038                   |                     |                  |       |                              |
| 2039                   |                     |                  |       |                              |
| 2040                   |                     |                  |       |                              |
| 2041                   |                     |                  |       |                              |
| 2042                   |                     |                  |       |                              |
| 2043                   |                     |                  |       |                              |
| 2044                   |                     |                  |       |                              |
| 2045                   |                     |                  |       |                              |
| 2046                   |                     |                  |       |                              |
| 2047                   |                     |                  |       |                              |

\$ \_\_\_\_\_ % **Term Refunding Bonds due August 1, 20\_\_** - Yield \_\_\_\_\_ % **CUSIP Number<sup>†</sup>**

\$ \_\_\_\_\_ % **Term Refunding Bonds due August 1, 20\_\_** - Yield \_\_\_\_\_ % **CUSIP Number<sup>†</sup>**

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<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

\* Preliminary; subject to change.

**GILROY UNIFIED SCHOOL DISTRICT  
(SANTA CLARA COUNTY, CALIFORNIA)**

**BOARD OF EDUCATION**

James E. Pace, *President*  
Mark Good, *Vice President*  
Enrique Diaz, *Member*  
B.C. Doyle, *Member*  
Tuyen Fiack, *Member*  
Anisha Munshi, *Member*  
Linda Piceno, *Member*

**DISTRICT ADMINISTRATORS**

Deborah A. Flores, Ph.D., *Superintendent*  
Alvaro Meza, *Assistant Superintendent, Business Services*  
Kimberly Mason, *Director of Fiscal Services*

**PROFESSIONAL SERVICES**

**Municipal Advisor**

Isom Advisors, a Division of Urban Futures, Inc.  
*Walnut Creek, California*

**Bond Counsel and Disclosure Counsel**

Orrick, Herrington & Sutcliffe LLP  
*Irvine, California*

**Paying Agent, Registrar and Transfer Agent and Escrow Bank**

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

**Verification Agent**

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

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

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

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

The Underwriter has provided the following sentence 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.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget,” “intend” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

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

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

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**GILROY UNIFIED SCHOOL DISTRICT  
(SANTA CLARA COUNTY, CALIFORNIA)  
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019  
(FEDERALLY TAXABLE)**

**INTRODUCTION**

*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, inside cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Refunding Bonds to potential investors is made only by means of the entire Official Statement.*

**General**

This Official Statement, which includes the cover page, inside cover page, and appendices hereto, is provided to furnish information in connection with the sale of \$[\_\_\_\_\_] aggregate principal amount of Gilroy Unified School District (Santa Clara County, California) General Obligation Refunding Bonds, Series 2019 (Federally Taxable) (the “Refunding Bonds”), to be offered by the Gilroy Unified School District (the “District”).

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See “OTHER LEGAL MATTERS – Continuing Disclosure” and “APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

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

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

Copies of documents referred to herein and information concerning the Refunding Bonds are available from the District by contacting: Gilroy Unified School District, 7810 Arroyo Circle, Gilroy California 95020, Attention: Superintendent. The District may impose a charge for copying, handling and mailing such requested documents.

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\* Preliminary; subject to change.

## **The District**

The District is located in the County of Santa Clara (the “County”) and provides public education in kindergarten through twelfth grade (“K-12”) within an approximately 260-square-mile area that includes all of the City of Gilroy and adjoining unincorporated areas.

The District operates eight elementary schools, three middle schools, two comprehensive high schools, one early college academy, one continuation high school and one adult education center. The District’s enrollment for fiscal year 2019-20 is approximately 11,000 students, and the District’s budgeted fiscal year 2019-20 general fund expenditures are approximately \$142.37 million based on the District’s revised budget. Taxable property in the District has a fiscal year 2019-20 total assessed value of \$11,341,890,510. As of September 2019, the District employed 576 full-time equivalent (“FTE”) certificated (teaching staff) employees, 414 FTE classified employees and 61 management and supervisory personnel. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a Board of Education (“Board”) consisting of seven trustees publicly elected to serve four-year terms in staggered years. To enhance communication and collaboration between the Board and the student body, the Board supports student participation in District governance. Pursuant to Board Bylaws, high school students within the District may submit a petition requesting that the Board appoint one or more student representatives/trustees (up to one student trustee for each District-operated high school) for a term of one year, commencing on July 1. Once appointed, student representatives have the right to be seated with other members of the Board during open-session, participate in the questions and discussions and cast preferential votes on all open-session matters. Preferential votes are formal expression of the opinion of the student trustee(s) on the matters presented to the Board and are recorded in the minutes, but do not affect the outcome of a Board vote.

On September 5, 2019, the Board decided to close the Antonio Del Buono Elementary School in summer 2020 (following the conclusion of the current school year) due to declining enrollment. Beginning with the 2020-21 school year, students from the Antonio Del Buono Elementary School will attend either Luigi Aprea Elementary School or Rucker Elementary School.

The District’s day-to-day operations are managed by a board-appointed Superintendent of Schools (the “Superintendent”). Deborah A. Flores, Ph.D., has served as the Superintendent of the District since May 2007. Dr. Flores began her educational career in 1975 as a special education teacher, and has worked in various capacities in California school districts since 1988, including as the Superintendent of Lucia Mar Unified School District in San Luis Obispo County.

For additional information about the District, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET” and APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

## **THE REFUNDING BONDS**

### **Authority for Issuance**

The Refunding Bonds are issued by the District pursuant to the Constitution and laws of the State, including Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and other applicable provisions of law, and pursuant to a resolution adopted by the Board of Education of the District on October 3, 2019, providing for the issuance of the Refunding Bonds (the “Resolution”).



Proceeds from the Refunding Bonds will be used (i) to refund all of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2013 and the Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2013 and the corresponding Gilroy School Facilities Financing Authority General Obligation Revenue Bonds, Series A, and (ii) to pay costs of issuance of the Refunding Bonds. See “–Plan of Refunding” and “–Estimated Sources and Uses of Funds” below.

## **Form and Registration**

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

## **Payment of Principal and Interest**

***Interest.*** The Refunding Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing on February 1, 2020, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Refunding Bond shall bear interest from the Interest Payment Date of such Refunding Bond next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Payment Date for such Refunding Bonds (the “Record Date”) and on or prior to the succeeding Interest Payment Date for such Refunding Bond, in which event it shall bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date for such Refunding Bond, in which event it shall bear interest from its dated date; provided, however, that if, at the time of authentication of any Refunding Bond, interest is in default on any outstanding Refunding Bonds, such Refunding Bond shall bear interest from the Interest Payment Date for such Refunding Bond to which interest has previously been paid or made available for payment on the outstanding Refunding Bonds.

***Payment of Refunding Bonds.*** The principal of the Refunding Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A., as paying agent (the “Paying Agent”) at the maturity thereof or upon redemption prior to maturity.

Interest on the Refunding Bonds is payable in lawful money of the United States of America by wire on each Interest Payment Date (if a business day, or on the next business day if the Interest Payment Date does not fall on a business day) to the registered owner thereof (the “Owner”) at such Owner’s address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose. So long as the Refunding Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX G – “BOOK-ENTRY ONLY SYSTEM.”

## Redemption\*

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

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

| Mandatory Sinking Fund<br>Redemption Date<br>(August 1) | Principal Amount<br>to be Redeemed |
|---|------------------------------------|
| _____   | \$ _____                           |
| †   |                                    |
| _____   |                                    |
| † Maturity.   |                                    |

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

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

| Mandatory Sinking Fund<br>Redemption Date<br>(August 1) | Principal Amount<br>to be Redeemed |
|---|------------------------------------|
| _____   | \$ _____                           |
| †   |                                    |
| _____   |                                    |
| † Maturity.   |                                    |

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

**Selection of Refunding Bonds for Redemption.** If less than all of the Refunding Bonds are called for redemption, the Refunding Bonds will be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Refunding Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Refunding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such

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\* Preliminary; subject to change.

selection, each Refunding Bond will be deemed to consist of individual Refunding Bonds of denominations of \$5,000 principal amount, each, which may be separately redeemed.

**Notice of Redemption.** Notice of any redemption of the Refunding Bonds is to be mailed by the Paying Agent, postage prepaid, not less than 20 or more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the Registration Books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Refunding Bonds. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Each notice of redemption is to contain the following information: (i) the date of such notice; (ii) the name of the Refunding Bonds and the date of issue of the Refunding Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Refunding Bonds to be redeemed; (vi) if less than all of the Refunding Bonds of any maturity are to be redeemed, the distinctive numbers of the Refunding Bonds of each maturity to be redeemed; (vii) in the case of Refunding Bonds redeemed in part only, the respective portions of the principal amount of the Refunding Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Refunding Bonds to be redeemed; (ix) a statement that such Refunding Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Refunding Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. Neither the failure to receive the notice of redemption, nor any defect in such notice is to affect the sufficiency of the proceedings for the redemption of the Refunding Bonds called for redemption or the cessation of interest on the date fixed for redemption.

**Effect of Notice of Redemption.** When notice of redemption has been given substantially as described above, and when the redemption price of the Refunding Bonds called for redemption is set aside for the purpose of redeeming the Refunding Bonds, the Refunding Bonds designated for redemption become due and payable on the specified redemption date and interest ceases to accrue thereon as of the redemption date, and upon presentation and surrender of such Refunding Bonds at the place specified in the notice of redemption, such Refunding Bonds are to be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Refunding Bonds so called for redemption after such redemption date are entitled to payment of such Refunding Bonds and the redemption premium thereon, if any, only to moneys on deposit in the interest and sinking fund of the District within the County treasury (the “Interest and Sinking Fund”) or the trust fund established for such purpose. All Refunding Bonds redeemed are to be cancelled forthwith by the Paying Agent and are not to be reissued.

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

**Funds for Redemption.** Prior to or on the redemption date of any Refunding Bonds there is to be available in the Interest and Sinking Fund of the District, or held in trust for such purpose as provided by law, monies for the purpose and sufficient to redeem, at the redemption prices as provided in the Resolution

provided, the Refunding Bonds designated in the notice of redemption. Such monies are to be applied on or after the redemption date solely for payment of principal of, interest and premium, if any, on the Refunding Bonds to be redeemed upon presentation and surrender of such Refunding Bonds, provided that all monies in the Interest and Sinking Fund of the District are to be used for the purposes established and permitted by law. Any interest due on or prior to the redemption date is to be paid from the Interest and Sinking Fund of the District, unless otherwise provided to be paid from such monies held in trust. If, after all of the Refunding Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Interest and Sinking Fund of the District or otherwise held in trust for the payment of redemption price of the Refunding Bonds, the monies are to be held in or returned or transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from such fund; provided, however, that if the monies are part of the proceeds of bonds of the District, the monies are to be transferred to the fund created for the payment of principal of and interest on such bonds. If no such bonds of the District are at such time outstanding, the monies are to be transferred to the general fund of the District as provided and permitted by law.

### **Defeasance of Refunding Bonds**

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

### **Unclaimed Moneys**

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

### **Plan of Refunding**

The Refunding Bonds will be issued (i) to refund all of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2013 (the "Prior 2013 District New Money Bonds") and the Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2013 (the "Prior 2013 District Refunding Bonds" and together with the Prior 2013 District New Money Bonds, the "Prior District Bonds") and the corresponding Gilroy School Facilities Financing Authority General Obligation Revenue Bonds, Series A (the "Prior Authority Bonds" and together with the Prior District Bonds, the "Refunded Bonds"), and (ii) to pay costs of issuance of the Refunding Bonds.

The District and The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank") will enter into the Escrow Agreement, dated as of October 1, 2019 (the "Escrow Agreement"), with respect to the Refunded Bonds, pursuant to which the District will deposit a portion of the proceeds from the sale of the Refunding Bonds into a special fund to be held by the Escrow Bank (the

“Escrow Fund”). The amounts deposited with the Escrow Bank with respect to the Refunded Bonds, which will be held pursuant to the Escrow Agreement, will be used to purchase non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America (collectively, “Defeasance Securities”), the principal of and interest on which (together with any uninvested amount) will be sufficient to enable the Escrow Bank (i) to pay, when due, the principal of and accreted interest on the Prior District Bonds to and including August 1, 2023 and (ii) to redeem the Prior District Bonds maturing thereafter on August 1, 2023 (the “Redemption Date”) at a redemption price as further described in the Escrow Agreement. The amounts resulting from the refunding of the Prior District Bonds will be used to pay, when due, the principal of and interest on the Prior Authority Bonds to and including the Redemption Date and to redeem the Prior Authority Bonds maturing thereafter on the Redemption Date at a redemption price equal to principal amount of the Prior Authority Bonds, without premium. See “ESCROW VERIFICATION.” Amounts on deposit with the Escrow Bank pursuant to the Escrow Agreement are not available to pay debt service on the Refunding Bonds.

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

The proceeds of the Refunding Bonds are expected to be applied as follows:

#### **GILROY UNIFIED SCHOOL DISTRICT (SANTA CLARA COUNTY, CALIFORNIA) GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019**

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

##### Sources of Funds:

|   |    |
|---|----|
| Aggregate Principal Amount of Refunding Bonds       | \$ |
| [Plus/Less] [Net] Original Issue [Premium/Discount] |    |
| Total Sources of Funds                              | \$ |

##### Uses of Funds:

|                                  |    |
|----------------------------------|----|
| Escrow Fund                      | \$ |
| Costs of Issuance <sup>(1)</sup> |    |
| Underwriter's Discount           |    |
| Total Uses of Funds              | \$ |

<sup>(1)</sup> Includes legal fees, rating agency fees, municipal advisory fees, verification agent fees, printing fees and other miscellaneous expenses.

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## Debt Service

Debt service on the Refunding Bonds, assuming no early redemptions, is as set forth in the following table.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**General Obligation Refunding Bonds, Series 2019 (Federally Taxable)**

| Period Ending<br>August 1, | Principal | Interest | Total Debt<br>Service |
|----------------------------|-----------|----------|-----------------------|
| 2020                       | \$        | \$       | \$                    |
| 2021                       |           |          |                       |
| 2022                       |           |          |                       |
| 2023                       |           |          |                       |
| 2024                       |           |          |                       |
| 2025                       |           |          |                       |
| 2026                       |           |          |                       |
| 2027                       |           |          |                       |
| 2028                       |           |          |                       |
| 2029                       |           |          |                       |
| 2030                       |           |          |                       |
| 2031                       |           |          |                       |
| 2032                       |           |          |                       |
| 2033                       |           |          |                       |
| 2034                       |           |          |                       |
| 2035                       |           |          |                       |
| 2036                       |           |          |                       |
| 2037                       |           |          |                       |
| 2038                       |           |          |                       |
| 2039                       |           |          |                       |
| 2040                       |           |          |                       |
| 2041                       |           |          |                       |
| 2042                       |           |          |                       |
| 2043                       |           |          |                       |
| 2044                       |           |          |                       |
| 2045                       |           |          |                       |
| 2046                       |           |          |                       |
| 2047                       |           |          |                       |
| Total:                     | \$        | \$       | \$                    |

## Outstanding Bonds

In addition to the Refunding Bonds (and not accounting for the planned refunding of the Refunded Bonds with proceeds of the Refunding Bonds), the District has outstanding seven series of general obligation bonds outstanding, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Refunding Bonds.

The District received authorization at an election held on November 5, 2002, to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$69,000,000 to finance specific construction and modernization projects (the “2002 Authorization”). On April 16, 2003, the Gilroy Unified School District General Obligation Bonds, Election of 2002, Series 2003 (the “Series 2003 Bonds”), in an aggregate principal amount of \$50,000,000, were issued as the first series of bonds to be

issued under the 2002 District Bond Authorization. On August 25, 2005, the Gilroy Unified School District General Obligation Bonds, Election of 2002, Series 2005 (the “Series 2005 Bonds”), in an aggregate principal amount of \$19,000,000, were issued as the second and final series of bonds to be issued under the 2002 Authorization.

On March 12, 2009, the Gilroy Unified School District 2009 General Obligation Bonds (Election of 2008, Series A) (the “Series 2009 Bonds”), in an aggregate initial principal amount of \$49,986,615, were issued as the first series of bonds to be issued under the 2008 Authorization. On April 15, 2010, the Gilroy Unified School District 2010 General Obligation Bond Anticipation Notes (Measure P) (the “Series 2010 Notes”), in an aggregate initial principal amount of \$44,996,556.20, were issued in anticipation of an additional series of bonds to be issued under the 2008 Authorization. On June 23, 2011, the Gilroy Unified School District 2011 General Obligation Bond Anticipation Notes (Measure P) (Qualified School Construction Bonds – Federally Taxable) (the “Series 2011 Notes”), in an aggregate principal amount of \$15,385,000, were issued to defease a portion of the Series 2010 Notes and to fund additional projects in anticipation of an additional series of bonds to be issued under the 2008 Authorization. The Series 2011 Notes matured on April 1, 2015. On March 13, 2013, the Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2013 (the “Series 2013 Bonds”), in an aggregate initial principal amount of \$40,670,000, were issued as the second series of bonds to be issued under the 2008 Authorization. The Series 2013 Bonds were issued to provide the funds necessary to pay the Series 2010 Notes that were not defeased by the Series 2011 Notes. The Series 2010 Notes matured on April 1, 2013. On February 29, 2015, the Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2015 (the “Series 2015 Bonds”), in an aggregate principal amount of \$30,385,000, were issued as the third series of bonds to be issued under the 2008 Authorization. The Series 2015 Bonds were issued to provide the funds necessary to pay the outstanding 2011 Notes and finance specific construction, repair and improvement projects approved by the voters of the District. On May 14, 2019, a portion of the Gilroy Unified School District (Santa Clara County, California), Elections of 2008 and 2016, Series 2019 (the “Series 2019 Bonds”), in an aggregate principal amount of \$28,955,000 was authorized under the 2008 Authorization as the fourth and final series of bonds to be issued under the 2008 Authorization.

On March 13, 2013, the Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2013 (the “Series 2013 Refunding Bonds”), in an aggregate principal amount of \$70,000,000, were issued by the District to refund on an advance basis a portion of the Series 2003 Bonds, a portion of the Series 2005 Bonds, and a portion of the Series 2009 Bonds to their maturity date. The Gilroy School Facilities Financing Authority also issued the Gilroy School Facilities Financing Authority General Obligation Revenue Bonds, Series A on March 13, 2013, for the purpose of purchasing the District’s Series 2013 Bonds and Series 2013 Refunding Bonds.

On February 29, 2015, the Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2015 (the “Series 2015 Refunding Bonds”), in the aggregate principal amount of \$35,300,000, were issued by the District to advance refund a portion of the outstanding Series 2009 Bonds.

At an election held on June 7, 2016, the District received authorization under Measure E to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$170,000,000 to finance specified projects (the “2016 Authorization”). On January 19, 2017, the Gilroy Unified School District (Santa Clara County, California) General Obligation Bonds, Election of 2016, Series 2017 (the “Series 2016 Bonds”), in the aggregate principal amount of \$60,000,000, were issued as the first series of bonds to be issued under the 2016 Authorization. On May 14, 2019, a portion of the Series 2019 Bonds in an aggregate principal amount of \$15,320,000 was authorized under the 2016 Authorization as the second

series of bonds to be issued under the 2016 Authorization. The amount of \$94,680,000 remains authorized but unissued under the 2016 Authorization.

A summary of the District's general obligation bonded debt is set forth on the following page.

As described herein, the Prior District Bonds and the corresponding Prior Authority Bonds will be refunded with a portion of the proceeds from the Refunding Bonds. See "– Plan of Refunding."

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## Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District, assuming no early redemptions other than mandatory sinking fund payments.

### GILROY UNIFIED SCHOOL DISTRICT (Santa Clara County, California) General Obligation Bonds – Aggregate Debt Service

| Period<br>Ending<br>August 1, | Series 2009<br>Bonds   | Series 2013<br>Bonds <sup>(1)</sup> | Series 2013<br>Refunding<br>Bonds <sup>(1)</sup> | Series 2015<br>Bonds   | Series 2015<br>Refunding Bonds | Series 2017<br>Bonds   | Series 2019<br>Bonds   | Refunding Bonds | Aggregate Total<br>Debt Service |
|-------------------------------|------------------------|-------------------------------------|--|------------------------|--------------------------------|------------------------|------------------------|-----------------|---------------------------------|
| 2020                          | -                      | \$ 1,868.76                         | \$5,719,075.00                                   | \$1,174,456.26         | \$4,287,450.00                 | \$2,078,175.00         | \$ 5,395,050.00        | \$              | \$                              |
| 2021                          | -                      | 2,268.76                            | 5,960,075.00                                     | 1,174,456.26           | 4,541,650.00                   | 2,078,175.00           | 5,852,250.00           |                 |                                 |
| 2022                          | -                      | 153,068.76                          | 5,699,875.00                                     | 1,174,456.26           | 4,653,650.00                   | 2,078,175.00           | 1,525,250.00           |                 |                                 |
| 2023                          | -                      | 203,468.76                          | 5,397,875.00                                     | 1,174,456.26           | 4,851,050.00                   | 2,078,175.00           | 1,499,450.00           |                 |                                 |
| 2024                          | -                      | 277,468.76                          | 5,400,875.00                                     | 1,174,456.26           | 5,055,050.00                   | 2,078,175.00           | 1,524,450.00           |                 |                                 |
| 2025                          | -                      | 429,018.76                          | 4,797,125.00                                     | 1,174,456.26           | 5,189,850.00                   | 2,078,175.00           | 1,548,250.00           |                 |                                 |
| 2026                          | -                      | 395,318.76                          | 4,594,275.00                                     | 1,174,456.26           | 5,617,650.00                   | 2,078,175.00           | 1,555,850.00           |                 |                                 |
| 2027                          | -                      | 410,787.50                          | 4,888,806.26                                     | 1,174,456.26           | 6,006,250.00                   | 2,078,175.00           | 1,497,850.00           |                 |                                 |
| 2028                          |                        | 4,669,487.50                        | 314,668.76                                       | 1,174,456.26           | 2,100,000.00                   | 2,078,175.00           | 1,490,350.00           |                 |                                 |
| 2029                          | \$5,400,000.00         | 688,750.00                          | 4,114,500.00                                     | 1,174,456.26           | -                              | 2,818,175.00           | 1,537,850.00           |                 |                                 |
| 2030                          | 6,200,000.00           | 749,000.00                          | 4,054,250.00                                     | 1,174,456.26           | -                              | 2,941,175.00           | 1,567,600.00           |                 |                                 |
| 2031                          | 3,100,000.00           | 803,250.00                          | 4,000,000.00                                     | 1,174,456.26           | -                              | 3,066,175.00           | 1,517,800.00           |                 |                                 |
| 2032                          | 3,400,000.00           | 803,250.00                          | 4,000,000.00                                     | 1,174,456.26           | -                              | 3,197,675.00           | 1,624,600.00           |                 |                                 |
| 2033                          | -                      | 7,203,250.00                        | -  | 2,534,456.26           | -                              | 3,334,925.00           | 1,911,800.00           |                 |                                 |
| 2034                          | -                      | 7,508,250.00                        | -  | 2,678,656.26           | -                              | 3,476,725.00           | 1,902,000.00           |                 |                                 |
| 2035                          | -                      | 7,942,000.00                        | -  | 2,712,306.26           | -                              | 3,688,800.00           | 1,896,600.00           |                 |                                 |
| 2036                          | -                      | 8,322,000.00                        | -  | 2,818,556.26           | -                              | 3,986,800.00           | 2,285,400.00           |                 |                                 |
| 2037                          | -                      | 8,724,500.00                        | -  | 2,920,156.26           | -                              | 4,144,800.00           | 2,482,600.00           |                 |                                 |
| 2038                          | -                      | 8,427,000.00                        | -  | 3,714,687.50           | -                              | 4,312,800.00           | 2,700,200.00           |                 |                                 |
| 2039                          | -                      | 8,862,800.00                        | -  | 3,827,500.00           | -                              | 4,485,000.00           | 2,887,000.00           |                 |                                 |
| 2040                          | -                      | 9,204,000.00                        | -  | 4,048,000.00           | -                              | 4,665,800.00           | 1,288,800.00           |                 |                                 |
| 2041                          | -                      | 9,458,400.00                        | -  | 4,400,000.00           | -                              | 4,849,400.00           | 1,266,600.00           |                 |                                 |
| 2042                          | -                      | 10,058,600.00                       | -  | 4,429,800.00           | -                              | 5,045,200.00           | 1,239,800.00           |                 |                                 |
| 2043                          | -                      | 12,465,000.00                       | -  | 2,672,200.00           | -                              | 5,247,200.00           | 1,223,600.00           |                 |                                 |
| 2044                          | -                      | 13,132,500.00                       | -  | 2,688,400.00           | -                              | 5,454,600.00           | 1,192,600.00           |                 |                                 |
| 2045                          | -                      | 13,842,500.00                       | -  | -                      | -                              | 5,676,600.00           | 3,852,400.00           |                 |                                 |
| 2046                          | -                      | 14,590,000.00                       | -  | -                      | -                              | 5,902,000.00           | 3,810,400.00           |                 |                                 |
| 2047                          | -                      | 13,520,000.00                       | -  | -                      | -                              | -                      | 5,310,400.00           |                 |                                 |
| 2048                          | -                      | -                                   | -  | -                      | -                              | -                      | 13,145,600.00          |                 |                                 |
| Total:                        | <u>\$18,100,000.00</u> | <u>\$162,847,806.32</u>             | <u>\$58,941,400.02</u>                           | <u>\$54,712,650.18</u> | <u>\$42,302,600.00</u>         | <u>\$94,997,425.00</u> | <u>\$76,532,400.00</u> | <u>\$</u>       | <u>\$</u>                       |

<sup>(1)</sup> Does not reflect the refunding of the Prior District Bonds from proceeds of the Refunding Bonds.

Source: Raymond James & Associates, Inc.

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

### **General**

In order to provide sufficient funds for repayment of principal and interest when due on the Refunding Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

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

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

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

### **Pledge of Tax Revenues**

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

### **Property Taxation System**

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

Local property taxation is the responsibility of various county officers. School districts whose boundaries extend into more than one county are treated for property tax purposes as separate jurisdictions in each county in which they are located. 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. Both the county auditor-controller and the county treasurer-tax collector have accounting responsibilities related to the collecting of property taxes. Once collected, the county auditor-controller apportions and distributes the taxes to the various taxing entities and related funds and accounts. The county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district, holds school district funds, including taxes collected for payment of bonds issued by school districts, and is charged with payment of principal and interest on the bonds when due, as ex-officio treasurer of the school district.

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

**General.** Taxable property located in the District has a fiscal year 2019-20 assessed value of \$11,341,890,510. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the California Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See “– *Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

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

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

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

The following table sets forth the assessed valuation of the various classes of property in the District’s boundaries from fiscal year 2005-06 through fiscal year 2019-20, each as of the date the equalized assessment roll is established in August of each year.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Assessed Valuations**  
**Fiscal Years 2005-06 through 2019-20**

| Fiscal Year | Local Secured    | Utility       | Unsecured     | Total           |
|-------------|------------------|---------------|---------------|-----------------|
| 2005-06     | \$ 6,188,386,506 | \$107,173,790 | \$266,535,482 | \$6,562,095,778 |
| 2006-07     | 6,884,295,668    | 102,680,381   | 247,802,970   | 7,234,779,019   |
| 2007-08     | 7,574,634,011    | 95,186,126    | 270,802,768   | 7,940,622,905   |
| 2008-09     | 7,985,684,560    | 94,891,614    | 310,868,472   | 8,391,444,646   |
| 2009-10     | 7,359,223,089    | 82,191,614    | 300,724,886   | 7,742,139,589   |
| 2010-11     | 6,952,983,187    | 80,991,614    | 262,559,893   | 7,296,534,694   |
| 2011-12     | 6,894,019,920    | 78,786,252    | 315,689,869   | 7,288,496,041   |
| 2012-13     | 6,913,331,868    | 72,186,252    | 305,270,340   | 7,290,788,460   |
| 2013-14     | 7,405,387,641    | 64,286,252    | 297,590,804   | 7,767,264,697   |
| 2014-15     | 7,968,842,255    | 52,575,894    | 303,865,605   | 8,325,283,754   |
| 2015-16     | 8,440,277,810    | 47,075,894    | 301,238,448   | 8,788,592,152   |
| 2016-17     | 9,109,662,212    | 42,175,894    | 314,078,918   | 9,465,917,024   |
| 2017-18     | 9,666,979,532    | 39,375,894    | 304,456,971   | 10,010,812,397  |
| 2018-19     | 10,332,177,849   | 38,983,256    | 318,576,605   | 10,689,737,710  |
| 2019-20     | 10,982,111,412   | 32,583,256    | 327,195,842   | 11,341,890,510  |

Source: California Municipal Statistics, Inc.

***Risk of Decline in Property Values.*** 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 property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, landslide, liquefaction, levee failure, 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. See also “*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*” below.

***Risk of Changing Economic Conditions; Risk of Earthquake.*** Property values could be reduced by factors beyond the District’s control, including an earthquake, or a depressed real estate market due to general economic conditions in the County, the region, and the State. The District is located in a seismically

active region. Active earthquake faults include the Calaveras fault to the east, and the San Andreas and Sargent faults to the west.

***Drought.*** In recent years California has experienced severe drought conditions. In January 2014, the Governor declared a state-wide Drought State of Emergency due to the State facing serious water shortfalls due to the driest year in recorded history in the State and the resultant record low levels measured in State rivers and reservoirs. The California State Water Resources Control Board (the “State Water Board”) subsequently issued a Statewide notice of water shortages and potential future curtailment of water right diversions. In April 2017, the Governor of the State lifted the drought emergency declaration, while retaining a prohibition on wasteful practices and advancing conservation measures. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

***Wildfire.*** In recent years, portions of California, including the County and adjacent counties, have experienced wildfires that have burned thousands of acres and destroyed thousands of homes and structures. Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District. It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

***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 or reconstruction 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 (such pre-reduction level escalated by the annual 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. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIII A of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

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.

See APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues” for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

**Bonding Capacity.** As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District’s fiscal year 2019-20 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$283.55 million and its net bonding capacity is approximately \$43.08 million (taking into account current outstanding debt before issuance of the Refunding Bonds and not accounting for the refunding of the Prior District 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.

**Assessed Valuation by Jurisdiction.** The following table describes the percentage and value of the total assessed valuation of the property within the District’s boundaries that reside in the City of Gilroy and unincorporated portions of the County for fiscal year 2018-19.

**GILROY UNIFIED SCHOOL DISTRICT  
(Santa Clara County, California)  
2018-19 Assessed Valuation by Jurisdiction**

*[2019-20 updated table to come.]*

| Jurisdiction                      | Assessed<br>Valuation<br>in District | % of<br>District | Assessed<br>Valuation<br>of Jurisdiction | % of<br>Jurisdiction in<br>District |
|-----------------------------------|--------------------------------------|------------------|--|-------------------------------------|
| City of Gilroy                    | \$ 8,741,061,361                     | 81.77%           | \$ 8,741,061,361                         | 100.00%                             |
| Unincorporated Santa Clara County | 1,948,676,349                        | 18.23            | \$ 17,968,471,412                        | 10.84                               |
| Total District                    | \$10,689,737,710                     | 100.00%          |  |                                     |
| Santa Clara County                | \$10,689,737,710                     | 100.00%          | \$482,861,280,340                        | 2.21%                               |

Source: California Municipal Statistics Inc.

***Assessed Valuation by Land Use.*** The following table sets forth a distribution of taxable property located in the District on the fiscal year 2019-20 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**GILROY UNIFIED SCHOOL DISTRICT  
(Santa Clara County, California)  
2019-20 Assessed Valuation and Parcels by Land Use**

|                                 | 2019-20<br>Assessed Valuation <sup>(1)</sup> | % of<br>Total | No. of<br>Parcels | % of<br>Total |
|---------------------------------|--|---------------|-------------------|---------------|
| <u>Non-Residential:</u>         |  |               |                   |               |
| Agricultural                    | \$ 745,896,012                               | 6.79%         | 1,754             | 9.35%         |
| Commercial/Office               | 1,100,961,336                                | 10.03         | 557               | 2.97          |
| Industrial                      | 574,164,559                                  | 5.23          | 261               | 1.39          |
| Recreational                    | 17,518,525                                   | 0.16          | 44                | 0.23          |
| Government/Social/Institutional | 64,897,714                                   | 0.59          | 348               | 1.86          |
| Miscellaneous                   | 33,527,850                                   | 0.31          | 72                | 0.38          |
| Subtotal Non-Residential        | \$2,536,965,996                              | 23.10%        | 3,036             | 16.19%        |
| <u>Residential:</u>             |  |               |                   |               |
| Single Family Residence         | \$7,514,470,466                              | 68.42%        | 13,270            | 70.75%        |
| Condominium/Townhouse           | 187,582,471                                  | 1.71          | 743               | 3.96          |
| Mobile Home                     | 11,825,596                                   | 0.11          | 180               | 0.96          |
| 2-4 Residential Units           | 186,785,832                                  | 1.70          | 395               | 2.11          |
| 5+ Residential Units/Apartments | 297,253,650                                  | 2.71          | 200               | 1.07          |
| Miscellaneous Residential       | 2,127,162                                    | 0.02          | 8                 | 0.04          |
| Subtotal Residential            | \$8,200,045,177                              | 74.67%        | 14,796            | 78.88%        |
| Vacant/Undeveloped              | \$245,100,239                                | 2.23%         | 925               | 4.93%         |
| Total                           | \$10,982,111,412                             | 100.00%       | 18,757            | 100.00%       |

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

**Assessed Valuation of Single-Family Homes.** The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2019-20, including the median and average assessed valuation of single family parcels.

**GILROY UNIFIED SCHOOL DISTRICT  
(Santa Clara County, California)  
2019-20 Per Parcel Assessed Valuation of Single Family Homes**

|                           | No. of<br>Parcels |  | 2018-19<br>Assessed Valuation | Average<br>Assessed Valuation | Median<br>Assessed Valuation |
|---------------------------|-------------------|--|-------------------------------|-------------------------------|------------------------------|
| Single Family Residential | 13,270            |  | \$7,514,470,466               | \$566,275                     | \$553,848                    |

  

| 2019-20<br>Assessed Valuation | No. of<br>Parcels <sup>(1)</sup> | Percent of<br>Total | Cumulative<br>Percent of Total | Total<br>Valuation | Percent of<br>Total | Cumulative<br>Percent of Total |
|-------------------------------|----------------------------------|---------------------|--------------------------------|--------------------|---------------------|--------------------------------|
| \$0 - \$99,999                | 795                              | 5.991%              | 5.991%                         | \$ 50,854,425      | 0.677%              | 0.677%                         |
| \$100,000 - \$199,999         | 846                              | 6.375               | 12.366                         | 128,689,867        | 1.713               | 2.389                          |
| \$200,000 - \$299,999         | 1,213                            | 9.141               | 21.507                         | 308,165,058        | 4.101               | 6.490                          |
| \$300,000 - \$399,999         | 1,528                            | 11.515              | 33.022                         | 534,442,105        | 7.112               | 13.602                         |
| \$400,000 - \$499,999         | 1,434                            | 10.806              | 43.828                         | 648,564,809        | 8.631               | 22.233                         |
| \$500,000 - \$599,999         | 1,592                            | 11.997              | 55.825                         | 878,482,924        | 11.691              | 33.924                         |
| \$600,000 - \$699,999         | 1,752                            | 13.203              | 69.028                         | 1,140,514,407      | 15.178              | 49.101                         |
| \$700,000 - \$799,999         | 1,514                            | 11.409              | 80.437                         | 1,130,238,440      | 15.041              | 64.142                         |
| \$800,000 - \$899,999         | 1,021                            | 7.694               | 88.131                         | 862,335,359        | 11.476              | 75.618                         |
| \$900,000 - \$999,999         | 572                              | 4.310               | 92.442                         | 541,623,656        | 7.208               | 82.826                         |
| \$1,000,000 - \$1,099,999     | 302                              | 2.276               | 94.717                         | 316,076,395        | 4.206               | 87.302                         |
| \$1,100,000 - \$1,199,999     | 217                              | 1.635               | 96.353                         | 247,908,037        | 3.299               | 90.331                         |
| \$1,200,000 - \$1,299,999     | 136                              | 1.025               | 97.378                         | 169,276,137        | 2.253               | 92.584                         |
| \$1,300,000 - \$1,399,999     | 126                              | 0.950               | 98.327                         | 169,165,927        | 2.251               | 94.835                         |
| \$1,400,000 - \$1,499,999     | 61                               | 0.460               | 98.787                         | 87,722,728         | 1.167               | 96.002                         |
| \$1,500,000 - \$1,599,999     | 38                               | 0.286               | 99.073                         | 58,512,033         | 0.779               | 96.781                         |
| \$1,600,000 - \$1,699,999     | 24                               | 0.181               | 99.254                         | 39,561,139         | 0.526               | 97.307                         |
| \$1,700,000 - \$1,799,999     | 25                               | 0.188               | 99.442                         | 43,544,355         | 0.579               | 97.887                         |
| \$1,800,000 - \$1,899,999     | 19                               | 0.143               | 99.586                         | 35,168,726         | 0.468               | 98.355                         |
| \$1,900,000 - \$1,999,999     | 9                                | 0.068               | 99.653                         | 17,529,961         | 0.233               | 98.588                         |
| \$2,000,000 and greater       | 46                               | 0.347               | 100.000                        | 106,093,978        | 1.412               | 100.000                        |
| Total                         | 13,270                           | 100.000%            |                                | \$7,514,470,466    | 100.000%            |                                |

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

[Remainder of page intentionally left blank.]



***Largest Taxpayers in District.*** The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2019-20 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

**GILROY UNIFIED SCHOOL DISTRICT  
(Santa Clara County, California)  
Largest 2019-20 Local Secured Taxpayers**

|     | Property Owner                       | Primary<br>Land Use         | 2019-20<br>Assessed Valuation | Percent of<br>Total <sup>(1)</sup> |
|-----|--------------------------------------|-----------------------------|-------------------------------|------------------------------------|
| 1.  | Simon Property Group                 | Outlet Stores               | \$216,750,517                 | 1.97%                              |
| 2.  | Excel Gilroy LLC                     | Commercial                  | 77,783,995                    | 0.71                               |
| 3.  | Olam West Coast Inc.                 | Food Processing             | 69,183,747                    | 0.63                               |
| 4.  | United Natural Foods West Inc.       | Food Processing             | 59,227,472                    | 0.54                               |
| 5.  | Mabury Vineyards LLC                 | Apartments                  | 55,665,651                    | 0.51                               |
| 6.  | Christopher Ranch LLC                | Agricultural                | 43,848,521                    | 0.40                               |
| 7.  | Pacheco Pass Retail XII LLC          | Commercial                  | 43,660,386                    | 0.40                               |
| 8.  | Wal Mart Real Estate Business Trust  | Commercial                  | 33,720,630                    | 0.31                               |
| 9.  | Performance Food Group Inc.          | Food Processing             | 31,681,994                    | 0.29                               |
| 10. | 7610 Isabella Way LLC                | Residential Care Facilities | 30,930,799                    | 0.28                               |
| 11. | E P & G South Valley Plaza LLC       | Commercial                  | 27,540,000                    | 0.25                               |
| 12. | CalAtlantic Group Inc.               | Residential Development     | 26,977,077                    | 0.25                               |
| 13. | Calpine Gilroy Cogen LP              | Industrial                  | 26,392,634                    | 0.24                               |
| 14. | Zanker Road Resource Management Ltd. | Disposal Site and Recycling | 25,914,430                    | 0.24                               |
| 15. | Central Valley Coalition             | Apartments                  | 25,173,640                    | 0.23                               |
| 16. | Costco Wholesale Corporation         | Commercial                  | 23,013,776                    | 0.21                               |
| 17. | Tri Point Homes Inc.                 | Residential Development     | 21,978,500                    | 0.20                               |
| 18. | Redwoods Wheeler LP                  | Apartments                  | 19,952,347                    | 0.18                               |
| 19. | Laurence F. Jorstad, Trustee.        | Residential Properties      | 19,392,111                    | 0.18                               |
| 20. | Sterigences US LLC                   | Industrial                  | 17,713,699                    | 0.16                               |
|     |                                      |                             | <hr/> \$896,501,926           | <hr/> 8.16%                        |

<sup>(1)</sup> 2019-20 local secured assessed valuation: \$10,982,111,412.  
Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See "*Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" above.

## **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 Refunding 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 Refunding Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational,

hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, drought, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Refunding Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

**Typical Tax Rate Area.** The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 2-001). This Tax Rate Area comprises approximately 65.42% of the total fiscal year 2018-19 assessed value of the District.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 2-001)**  
**Fiscal Years 2014-15 through 2018-19**

*[2019-20 information to come.]*

|   | Fiscal Year<br>2014-15 | Fiscal Year<br>2015-16 | Fiscal Year<br>2016-17 | Fiscal Year<br>2017-18 | Fiscal Year<br>2018-19 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| General   | \$1.00000              | \$1.00000              | \$1.00000              | \$1.00000              | \$1.00000              |
| County Retirement Levy                                | 0.03880                | 0.03880                | 0.03880                | 0.03880                | 0.03880                |
| County Library  | 0.00240                | 0.00240                | 0.00240                | 0.00240                | 0.00240                |
| County Hospital and Housing Bonds                     | 0.00910                | 0.00880                | 0.00860                | 0.02086                | 0.01770                |
| City of Gilroy Bonds                                  | 0.03400                | 0.02900                | 0.02720                | 0.02600                | 0.02500                |
| Gavilan Joint Community College District Bond         | 0.02390                | 0.02260                | 0.02160                | 0.02000                | 0.01920                |
| Gilroy Unified School District Bonds                  | 0.11650                | 0.10710                | 0.16140                | 0.15280                | 0.10840                |
| Total Tax Rate  | \$1.22470              | \$1.20870              | \$1.26000              | \$1.26086              | \$1.21150              |
| Santa Clara Valley Water District State Water Project | \$0.00650              | \$0.00570              | \$0.00860              | \$0.00620              | \$0.00420              |
| Total Land and Improvement                            | \$0.00650              | \$0.00570              | \$0.00860              | \$0.00620              | \$0.00420              |

Source: California Municipal Statistics, Inc.

## Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special ad valorem taxes for voter-approved indebtedness, including the Series 2019 Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

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

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

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

The following table sets forth real property tax charges and corresponding delinquencies for the general obligation bond debt service levy with respect to the property located in the District for fiscal years 2013-14 through 2017-18. The County does not provide the secured tax charges and corresponding delinquencies for the 1% general fund levy with respect to property located in the County. See “ – Teeter Plan ” below.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Secured Tax Charges and Delinquencies<sup>(1)</sup>**  
**Fiscal Years 2013-14 through 2017-18**

*[2018-19 information to come.]*

| Fiscal Year | Secured Tax Charge <sup>(1)</sup> | Amount Delinquent June 30 | Percentage Delinquent June 30 |
|-------------|-----------------------------------|---------------------------|-------------------------------|
| 2013-14     | \$8,433,795.50                    | \$100,345.83              | 1.19%                         |
| 2014-15     | 9,250,225.16                      | 105,218.15                | 1.14                          |
| 2015-16     | 9,018,353.09                      | 90,751.80                 | 1.01                          |
| 2016-17     | 14,559,197.15                     | 135,673.72                | 0.93                          |
| 2017-18     | 14,716,278.34                     | 113,342.92                | 0.77                          |

<sup>(1)</sup> General obligation bond debt service levy only.  
Source: California Municipal Statistics, Inc.

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

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency.

### **Direct and Overlapping Debt**

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective September 12, 2019 for debt outstanding as of September 1, 2019. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth 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 set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District.

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

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**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Statement of Direct and Overlapping Bonded Debt**

September 12, 2019

2019-20 Assessed Valuation: \$11,341,890,510

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>                   | <u>% Applicable<sup>(1)</sup></u> | <u>Debt 9/1/19</u>                 |
|--|-----------------------------------|------------------------------------|
| Santa Clara County   | 2.214%                            | \$ 19,515,414                      |
| Gavilan Joint Community College District                                 | 32.183                            | 39,929,448                         |
| Gilroy Unified School District   | 100.000                           | 240,469,559 <sup>(2)</sup>         |
| City of Gilroy   | 100.000                           | 27,915,000                         |
| City of Gilroy Community Facilities District No. 2000-1                  | 100.000                           | 7,212,008                          |
| Santa Clara Valley Water District Benefit Assessment District            | 2.214                             | 1,628,840                          |
| <b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>              |                                   | <b>\$336,670,269</b>               |
| <br><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>                     |                                   |                                    |
| Santa Clara County General Fund Obligations                              | 2.214%                            | \$21,863,895                       |
| Santa Clara County Pension Obligation Bonds                              | 2.214                             | 7,682,506                          |
| Santa Clara County Board of Education Certificates of Participation      | 2.214                             | 94,206                             |
| Gavilan Joint Community College District General Obligation Bonds        | 32.183                            | 4,340,199                          |
| Gilroy Unified School District Certificates of Participation             | 100.000                           | 25,110,000                         |
| City of Gilroy Certificates of Participation                             | 100.000                           | 37,515,000                         |
| Santa Clara County Vector Control District Certificates of Participation | 2.214                             | 49,704                             |
| <b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>              |                                   | <b>\$96,655,510</b>                |
| Less: Santa Clara County supported obligations                           |                                   | 7,121,961                          |
| <b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>                |                                   | <b>\$89,533,549</b>                |
| <br><b>GROSS COMBINED TOTAL DEBT</b>                                     |                                   | <b>\$433,325,779<sup>(3)</sup></b> |
| <b>NET COMBINED TOTAL DEBT</b>   |                                   | <b>\$426,203,818</b>               |

Ratios to 2018-19 Assessed Valuation:

|   |       |
|---|-------|
| Direct Debt (\$240,469,559).....                          | 2.12% |
| Combined Direct Debt (\$265,579,559) .....                | 2.34% |
| Total Direct and Overlapping Tax and Assessment Debt..... | 2.97% |
| Gross Combined Total Debt .....                           | 3.82% |
| Net Combined Total Debt .....                             | 3.76% |

<sup>(1)</sup> 2018-19 ratios.

<sup>(1)</sup> Excludes the Refunding Bonds; includes the Prior District Bonds.

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

Source: California Municipal Statistics, Inc.

## TAX MATTERS

[In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Refunding Bonds is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Refunding Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Refunding Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix C hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Refunding Bonds that acquire their Refunding Bonds in the initial offering. The discussion

below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Refunding Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Refunding Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Refunding Bonds pursuant to this offering for the issue price that is applicable to such Refunding Bonds (i.e., the price at which a substantial amount of the Refunding Bonds are sold to the public) and who will hold their Refunding Bonds as “capital assets” within the meaning of Section 1221 of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Refunding Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Refunding Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Refunding Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Refunding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Refunding Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Notwithstanding the rules described below, it should be noted that certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies may be required to recognize income, gain and loss with respect to the Refunding Bonds at the time that such income, gain or loss is recognized on such financial statements instead of under the rules described below (in the case of original issue discount, such requirements are only effective for tax years beginning after December 31, 2018).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Refunding Bonds in light of their particular circumstances.

### ***U.S. Holders***

***Interest.*** Interest on the Refunding Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

Refunding Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Refunding Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Refunding Bond.

*Sale or Other Taxable Disposition of the Refunding Bonds.* Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Refunding Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Refunding Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Refunding Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the Refunding Bond (generally, the purchase price paid by the U.S. Holder for the Refunding Bond, decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Refunding Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Refunding Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

*Defeasance of the Refunding Bonds.* If the District defeases any Refunding Bond, the Refunding Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted tax basis in the Refunding Bond.

*Information Reporting and Backup Withholding.* Payments on the Refunding Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Refunding Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Refunding Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Refunding Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

### ***Non-U.S. Holders***

*Interest.* Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act," payments of principal of, and interest on, any Refunding Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the District through stock ownership and (2) a bank which acquires such Refunding Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that

the beneficial owner of the Refunding Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

*Disposition of the Refunding Bonds.* Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “FATCA,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District or a deemed retirement due to defeasance of the Refunding Bond ) or other disposition of a Refunding Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

*U.S. Federal Estate Tax.* A Refunding Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that, at the time of such individual’s death, payments of interest with respect to such Refunding Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

*Information Reporting and Backup Withholding.* Subject to the discussion below under the heading “FATCA,” under current U.S. Treasury Regulations, payments of principal and interest on any Refunding Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Refunding Bond or a financial institution holding the Refunding Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

#### ***Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders***

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.



The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Refunding Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Refunding Bonds, including the application and effect of state, local, non-U.S., and other tax laws.]

## **OTHER LEGAL MATTERS**

### **Legal Opinion**

The validity of the Refunding Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Refunding Bonds at the time of issuance substantially in the form set forth in Appendix C. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District, and for the Underwriter (defined herein) by Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation.

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

Under the provisions of the California Financial Code, the Refunding Bonds are legal investments for commercial banks in California to the extent that the Refunding 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, the Refunding Bonds are eligible securities for deposit of public moneys in the State.

### **Continuing Disclosure**

The District has covenanted for the benefit of the holders and Beneficial Owners of the Refunding Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than April 1, 2020) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter (defined herein) in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission.

[In the past five years, the District failed to timely file certain operating data required by its prior continuing disclosure undertakings in its annual reports for fiscal years 2015-16 and 2016-17.]

Isom Advisors, a Division of Urban Futures, Inc. currently serves as the District's dissemination agent in connection with its prior undertakings and has been engaged by the District as its dissemination agent for its undertakings relating to the Refunding Bonds.

### **Litigation**

No litigation is pending or threatened concerning or contesting the validity of the Refunding Bonds or the District's ability to receive ad valorem taxes and to collect other revenues, or contesting the District's

ability to issue and retire the Refunding Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Refunding Bonds or District officials who will sign certifications relating to the Refunding Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter (defined herein) at the time of the original delivery of the Refunding Bonds.

From time to time, tort claims or lawsuits may be filed against the District. Said claims or lawsuits, ranging from claims of discrimination or harassment to physical injuries, are typically tendered to the District's insurer and, if accepted by the insurer, the District's defense is assigned to insurance counsel. In such cases, the District expects any liability to be covered by its insurance and does not expect its financial position or operations to be materially impacted. However, the District cannot predict the outcome of any such litigation or tort claims. The Refunding Bonds are payable from *ad valorem* taxes to be levied within the District and collected by the County, and such claims or lawsuits do not impact said levy or collection. When collected, such tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District

### **ESCROW VERIFICATION**

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter (defined herein) relating to the computation of projected receipts of principal and interest on the Defeasance Securities, and the projected payments of principal, redemption premium, if any, and interest to retire the Refunded Bonds will be verified by Causey Demgen & Moore P.C., Denver, Colorado (the "Verification Agent"). Such computations will be based solely on assumptions and information supplied by the District and the Underwriter (defined herein). The Verification Agent will restrict its procedures to verifying the arithmetical accuracy of certain computations and will not make any study to evaluate the assumptions and information on which the computations are based, and will express no opinion on the data used, the reasonableness of the assumptions or the achievability of the projected outcome.

### **MISCELLANEOUS**

#### **Rating**

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

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

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Refunding Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Refunding Bonds. Isom Advisors, a Division of Urban Futures, Inc. is acting as the District's

Municipal Advisor with respect to the Refunding Bonds. Kronick, Moskovitz, Tiedemann & Girard, A Professional Corporation, is acting as Underwriter's Counsel with respect to the Refunding Bonds and will receive compensation from the Underwriter. Payment of the fees and expenses of the Municipal Advisor and Underwriter's Counsel is also contingent upon the sale and delivery of the Refunding Bonds. From time to time, Bond Counsel represents the Underwriter (defined herein) on matters unrelated to the Refunding Bonds.

### **Underwriting**

The Refunding Bonds are being purchased for reoffering to the public by Raymond James & Associates, Inc. (the "Underwriter"), pursuant to the terms of a bond purchase agreement executed on \_\_\_\_\_, 2019 (the "Purchase Agreement"), by and between the Underwriter and the District. The Underwriter has agreed to purchase the Refunding Bonds at a price of \$\_\_\_\_\_ (which represents the aggregate principal amount of the Refunding Bonds, [plus/less] [net] original issue [premium/discount] of \$\_\_\_\_\_, and less an Underwriter's discount in the amount of \$\_\_\_\_\_). The Purchase Agreement provides that the Underwriter will purchase all of the Refunding Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Refunding Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

### **ADDITIONAL INFORMATION**

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

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

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

**GILROY UNIFIED SCHOOL DISTRICT**

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

## **APPENDIX A**

### **INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET**

*The information in this appendix concerning the operations of the Gilroy Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Refunding Bonds is payable from the general fund of the District or from State revenues. The Refunding Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County of Santa Clara on property within the District in an amount sufficient for the timely payment of principal of and interest on the Refunding Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS" in the front portion of the Official Statement.*

### **THE DISTRICT**

#### **Introduction**

The District is located in the County of Santa Clara (the "County") and provides public education in kindergarten through twelfth grade ("K-12") within an approximately 260-square-mile area that includes all of the City of Gilroy and adjoining unincorporated areas.

The District operates eight elementary schools, three middle schools, two comprehensive high schools, one early college academy, one continuation high school and one adult education center. The District's enrollment for fiscal year 2019-20 is approximately 11,000 students, and the District's budgeted fiscal year 2019-20 general fund expenditures are approximately \$142.37 million based on the District's revised budget. Taxable property in the District has a fiscal year 2019-20 total assessed value of \$11,341,890,510. As of September 2019, the District employed 576 full-time equivalent ("FTE") certificated (teaching staff) employees, 414 FTE classified employees and 61 management and supervisory personnel. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a Board of Education ("Board") consisting of seven trustees publicly elected to serve four-year terms in staggered years. To enhance communication and collaboration between the Board and the student body, the Board supports student participation in District governance. Pursuant to Board Bylaws, high school students within the District may submit a petition requesting that the Board appoint one or more student representatives/trustees (up to one student trustee for each District-operated high school) for a term of one year, commencing on July 1. Once appointed, student representatives have the right to be seated with other members of the Board during open-session, participate in the questions and discussions and cast preferential votes on all open-session matters. Preferential votes are formal expression of the opinion of the student trustee(s) on the matters presented to the Board and are recorded in the minutes, but do not affect the outcome of a Board vote.

On September 5, 2019, the Board decided to close the Antonio Del Buono Elementary School in summer 2020 (following the conclusion of the current school year) due to declining enrollment. Beginning with the 2020-21 school year, students from the Antonio Del Buono Elementary School will attend either Luigi Aprea Elementary School or Rucker Elementary School.

The District's day-to-day operations are managed by a board-appointed Superintendent of Schools (the "Superintendent"). Deborah A. Flores, Ph.D., has served as the Superintendent of the District since

May 2007. Dr. Flores began her educational career in 1975 as a special education teacher, and has worked in various capacities in California school districts since 1988, including as the Superintendent of Lucia Mar Unified School District in San Luis Obispo County.

### **Board of Education**

Each December the Board elects a President and Vice President to serve one-year terms. Current members of the Board, together with their office and the date their term expires, are listed below.

#### **GILROY UNIFIED SCHOOL DISTRICT (Santa Clara County, California)**

##### **Board of Education**

| Name          | Office         | Term Expires  |
|---------------|----------------|---------------|
| James E. Pace | President      | December 2020 |
| Mark Good     | Vice President | December 2020 |
| Enrique Diaz  | Member         | December 2022 |
| B.C. Doyle    | Member         | December 2020 |
| Tuyen Fiack   | Member         | December 2022 |
| Anisha Munshi | Member         | December 2022 |
| Linda Piceno  | Member         | December 2022 |

### **Superintendent and Business Services Personnel**

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and certain other key administrative personnel is set forth below.

***Deborah A. Flores, Ph.D., Superintendent.*** Dr. Deborah Flores has been the Superintendent of the District since July 2007. Dr. Flores has been a superintendent of schools for 10 years. Prior to joining the District, she was superintendent of two school districts: Lucia Mar Unified School District located in Arroyo Grande, California, and Santa Barbara School District in Santa Barbara, California. Dr. Flores also held the positions of Assistant and Deputy Superintendent in the Santa Barbara School District, where she worked for almost 15 years. Prior to coming to California in 1988, Dr. Flores worked in the field of special education, first as a special education teacher at an elementary level and then as a special education director (K-12). She also held the position of Pupil Services Director where she was responsible for a broad range of programs, including special education, categoricals, guidance counseling and assessment. After moving to California, she initially worked for the Riverside County Office of Education in the child development division and administered preschool programs throughout Riverside County. Dr. Flores has a Ph.D. from the University of California in Santa Barbara in Educational Administration, a Master's in Education, and a Bachelors of Arts from the University of Massachusetts – Amherst. Dr. Flores has received a number of awards including: Teacher of the Year (Amherst, Mass.), Woman of Achievement (Riverside County), ACSA Central Office Administrator of the Year (Santa Barbara, California) and ACSA Superintendent of the Year.

***Alvaro Meza, Assistant Superintendent, Business Services.*** Mr. Meza has over 17 years of public school finance experience. He started his career as a financial analyst in 2002 at the Salinas City Elementary School District. While at Salinas City Elementary School District, he was promoted to Coordinator of Fiscal Services and then Controller. Mr. Meza became the Director of Fiscal Services while obtaining the

Chief Business Official Certificate from the California Association of School Business Officials. Mr. Meza became the Assistant Superintendent of Santa Cruz City Schools in 2009, where he helped such district regain its fiscal solvency and helped restored its positive certification. Mr. Meza joined the District in July 2013, and enjoys living and working in Gilroy. Mr. Meza has a Bachelor's of Arts in Economics and a Master's of Science in Applied Economics and Finance from the University of California, Santa Cruz.

## **DISTRICT FINANCIAL MATTERS**

### **State Funding of Education; State Budget Process**

**General.** As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") (see "*Allocation of State Funding to School Districts; Local Control Funding Formula*") and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "*Local Sources of Education Funding*"). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has budgeted to receive approximately 45.20% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), budgeted at approximately \$58.29 million in fiscal year 2019-20. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*Allocation of State Funding to School Districts; Local Control Funding Formula*," "*Attendance and LCFF*" and "Other District Revenues – *Other State Revenues*" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

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

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented the LCFF. Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See "*Allocation of State Funding to School Districts; Local Control Funding Formula*" for more information.

**State Budget Process.** According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two-thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2019-20 State budget on June 27, 2019.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of *White v. Davis*

(also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

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

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

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring

apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

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

**2019-20 State Budget.** The Governor signed the fiscal year 2019-20 State Budget (the "2019-20 State Budget") on June 27, 2019. The 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20 that projects approximately \$143.8 billion in revenues, and \$91.9 billion in non-Proposition 98 expenditures and \$55.9 billion in Proposition 98 expenditures. The 2019-20 State Budget includes a \$1.4 billion reserve in the Special Fund for Economic Uncertainties. To provide immediate and long-term relief to school districts facing rising pension costs, the 2019-20 State Budget includes a \$3.15 billion non-Proposition 98 General Fund payment to the California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") Schools Pool. Of this amount, an estimated \$850 million will buy down the employer contribution rates in fiscal years 2019-20 and 2020-21. The 2019-20 State Budget includes total funding of \$103.4 billion (\$58.8 billion General Fund and \$44.6 billion other funds) for all K-12 education programs. The 2019-20 State Budget provides \$1.9 billion in new Proposition 98 funding for the LCFF, reflecting a 3.26% cost of living adjustment. The 2019-20 State Budget also includes a constitutionally required deposit into the Public School System Stabilization Account (also referred to as the Proposition 98 Rainy Day Fund) in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps, as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion).

Certain budgeted adjustments for K-12 education set forth in the 2019-20 State Budget include the following:

- Special Education. The 2019-20 State Budget includes \$645.3 million ongoing Proposition 98 General Fund resources for special education, including \$152.6 million to provide for all Special Education Local Plan Areas with at least the statewide target rate for base special education funding, and \$492.7 million allocated based on the number of children ages 3 to 5 years with exceptional needs that the school district is serving.
- After School Education and Safety Program. The 2019-20 State Budget includes \$50 million ongoing Proposition 98 General Fund resources to provide an increase of approximately 8.3% to the per-pupil daily rate for the After School Education and Safety Program.



- Longitudinal Data System. The 2019-20 State Budget includes \$10 million one-time non-Proposition 98 General Fund resources to plan and develop a longitudinal data system to improve coordination across data systems and better track the impacts of State investments on achieving educational goals.
- Retaining and Supporting Well-Prepared Educators. The 2019-20 State Budget includes \$89.8 million one-time non-Proposition 98 General Fund resources to provide up to 4,487 grants of \$20,000 for students enrolled in a professional teacher preparation program who commit to working in a high-need field at a priority school for at least four years. The 2019-20 State Budget also includes \$43.8 million one-time non-Proposition 98 General Fund resources to provide training and resources for classroom educators, including teachers and paraprofessionals, to build capacity around key state priorities. Finally, the 2019-20 State Budget includes \$13.8 million ongoing federal funds to establish the 21st Century California Leadership Academy, to provide professional learning opportunities for public K-12 administrators and school leaders to acquire the knowledge, skills, and competencies necessary to successfully support the diverse student population served in California public schools.
- Broadband Infrastructure. The 2019-20 State Budget includes \$7.5 million one-time non-Proposition 98 General Fund resources to assist school districts in need of infrastructure and updates to meet the growing bandwidth needs of digital learning.
- School Facilities Bond Funds. The 2019-20 State Budget assumes \$1.5 billion Proposition 51 bond funds, an increase of \$906 million over the prior year, to support school construction projects.
- Full-Day Kindergarten. The 2019-20 State Budget includes \$300 million one-time non-Proposition 98 General Fund resources to construct new or retrofit existing facilities to support full-day kindergarten programs, which will increase participation in kindergarten by addressing barriers to access.
- Proposition 98 Settle-Up. The 2019-20 State Budget includes an increase of \$686.6 million for K-12 schools and community colleges to pay the balance of past year Proposition 98 funding owed through fiscal year 2017-18.
- Classified School Employees Summer Assistance Program. The 2019-20 State Budget includes an increase of \$36 million one-time Proposition 98 General Fund resources to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a State match for classified employee savings used to provide income during summer months.
- Wildfire-Related Cost Adjustments. The 2019-20 State Budget includes an increase of \$2 million one-time Proposition 98 General Fund resources to reflect adjustments in the estimate for property tax backfill for basic aid school districts impacted by 2017 and 2018 wildfires. Additionally, the 2019-20 State Budget includes an increase of \$727,000 one-time Proposition 98 General Fund resources to reflect adjustments to the State's student nutrition programs resulting from wildfire-related losses. Further, the 2019-20 State Budget holds both school districts and charter schools impacted by the wildfires harmless for State funding for two years.

The complete 2019-20 State Budget is available from the California Department of Finance website at [www.dof.ca.gov](http://www.dof.ca.gov). The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

***Future Budgets and Budgetary Actions.*** The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2019-20 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District. As the Refunding Bonds are payable from *ad valorem* property taxes, the State budget is not expected to have an impact on the payment of the Refunding Bonds.

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

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

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*"). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years – such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

***Allocation of State Funding to School Districts; Local Control Funding Formula.*** Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs,

employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some equalization aid were commonly referred to as "revenue limit districts," which are now referred to as "LCFF districts." The District is an LCFF district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant ("Base Grant") per unit of average daily attendance ("A.D.A.") with additional supplemental funding (the "Supplemental Grant") allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF was projected to have an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below, but achieved full implementation ahead of schedule in fiscal year 2018-19. The LCFF includes the following components:

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2019-20, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to \$8,503 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to \$7,818 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to \$8,050 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to \$9,572 per A.D.A. for grades 9 through 12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes a costs of living adjustment of 3.26% authorized by the 2019-20 State Budget.
- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.
- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF in fiscal year 2018-19. Upon full implementation in fiscal year 2018-19, LEAs now receive the greater of the Base Grant or the ERT.

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

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

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

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

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**Attendance and LCFF.** The following table sets forth the District’s actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, “EL/LI Students”)), and targeted Base Grant per unit of A.D.A. for fiscal years 2014-15 through 2019-20, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education students served at District school sites, but exclude special education students served at County facilities and the charter school, Gilroy Prep Academy (defined and described further herein).

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Average Daily Attendance, Enrollment and Targeted Base Grant**  
**Fiscal Years 2014-15 through 2019-20**

| Fiscal Year            | A.D.A./Base Grant                       |          |          |          |          | Enrollment <sup>(10)</sup> |                  |   |
|------------------------|---|----------|----------|----------|----------|----------------------------|------------------|---|
|                        |   | TK-3     | 4-6      | 7-8      | 9-12     | Total A.D.A.               | Total Enrollment | Unduplicated Percentage of EL/LI Students |
| 2014-15                | A.D.A. <sup>(1)</sup> :                 | 3,298    | 2,394    | 1,657    | 3,512    | 10,861                     | 11,478           | 59.28%                                    |
|                        | Targeted Base Grant <sup>(2)(3)</sup> : | \$7,740  | \$7,116  | \$7,328  | \$8,712  | --                         | --               | --  |
| 2015-16                | A.D.A. <sup>(1)</sup> :                 | 3,165    | 2,426    | 1,695    | 3,574    | 10,860                     | 11,435           | 59.17%                                    |
|                        | Targeted Base Grant <sup>(2)(4)</sup> : | \$7,083  | \$7,189  | \$7,403  | \$8,578  | --                         | --               | --  |
| 2016-17                | A.D.A. <sup>(1)</sup> :                 | 3,136.77 | 2,511.27 | 1,660.60 | 3,624.63 | 10,933.27                  | 11,483           | 59.33%                                    |
|                        | Targeted Base Grant <sup>(2)(5)</sup> : | \$7,083  | \$7,189  | \$7,403  | \$8,578  | --                         | --               | --  |
| 2017-18                | A.D.A. <sup>(1)</sup> :                 | 3,117.01 | 2,498.65 | 1,661.69 | 3,622.87 | 10,900.22                  | 11,290           | 59.73%                                    |
|                        | Targeted Base Grant <sup>(2)(6)</sup> : | \$7,083  | \$7,189  | \$7,403  | \$8,578  | --                         | --               | --  |
| 2018-19                | A.D.A. <sup>(1)</sup> :                 | 2,988.55 | 2,380.47 | 1,703.84 | 3,616.20 | 10,689.06                  | 11,116           | 59.26%                                    |
|                        | Targeted Base Grant <sup>(2)(7)</sup> : | \$7,459  | \$7,571  | \$7,796  | \$9,034  | --                         | --               | --  |
| 2019-20 <sup>(8)</sup> | A.D.A. <sup>(8)</sup> :                 | 2,951    | 2,348    | 1,665    | 3,571    | 10,535                     | 10,942           | 59.00%                                    |
|                        | Targeted Base Grant <sup>(2)(9)</sup> : | \$8,503  | \$7,818  | \$8,050  | \$9,572  | --                         | --               | --  |

<sup>(1)</sup> A.D.A. for the second period of attendance, typically in mid-April of each school year, which does not reflect subsequent revisions related to days deemed later by the California Department of Education to have a “material decrease” in attendance or attendance at Saturday school.

<sup>(2)</sup> Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.

<sup>(3)</sup> Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.

<sup>(4)</sup> Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.

<sup>(5)</sup> Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.

<sup>(6)</sup> Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.

<sup>(7)</sup> Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This “super COLA” amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.

<sup>(8)</sup> Figures are estimates.

<sup>(9)</sup> Targeted fiscal year 2019-20 Base Grant amount reflects a 3.26% cost-of-living adjustment from targeted fiscal year 2018-19 Base Grant amounts.

<sup>(10)</sup> Except for fiscal year 2019-20, reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System (“CALPADS”) for the 2015-16 through 2017-18 school year. For purposes of calculating Supplemental and Concentration Grants, a school district’s fiscal year 2013-14 percentage of unduplicated EL/LI Students was expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district’s percentage of unduplicated EL/LI Students was based on a rolling average of such school district’s EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

Source: Gilroy Unified School District.

The District received approximately \$110.00 million (unaudited) in aggregate revenues reported under LCFF sources in fiscal year 2018-19, and has budgeted to receive approximately \$111.08 million in aggregate revenues under the LCFF in fiscal year 2019-20 (or approximately 86.14% of its general fund revenues in fiscal year 2019-20). Such amount includes supplemental grants and concentration grants of approximately \$10.60 million and \$1.95 million (unaudited), respectively, in fiscal year 2018-19, and budgeted to be \$10.81 million and \$1.99 million, respectively, in fiscal year 2019-20.

### **Local Sources of Education Funding**

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

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See "State Funding of Education; State Budget Process - *Allocation of State Funding to School Districts; Local Control Funding Formula*" for more information about the LCFF.

Local property tax revenues account for approximately 56.19% of the District's aggregate revenues reported under LCFF sources and are budgeted to be approximately \$62.41 million, or 48.40% of total general fund revenues in fiscal year 2019-20.

For information about the property taxation system in California and the District's property tax base, see the sections titled "–Property Taxation System," "–Assessed Valuation of Property Within the District," and "–Tax Charges and Delinquencies," under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE REFUNDING BONDS" in the front portion of the Official Statement.

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

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

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

operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

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

## **Other District Revenues**

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 5.24% (or approximately \$6.76 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

**Other State Revenues.** In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into LCFF. Categorical funding for certain programs was excluded from LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 7.46% (or approximately \$9.62 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is budgeted at approximately \$2.14 million for fiscal year 2019-20.

**Other Local Revenues.** In addition to *ad valorem* property taxes, the District receives additional local revenues from sources, such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 1.16% (or approximately \$1.49 million) of the District's general fund budgeted revenues for fiscal year 2019-20.

## **Charter Schools**

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There is currently one charter school, Gilroy Prep Academy/Navigator School ("Gilroy Prep Academy"), operating in the District. Gilroy Prep Academy is an independent charter school and operates under authorization from the District. Gilroy Prep Academy serves grades kindergarten through eighth grade. Enrollment in fiscal year 2018-19 was 534 students and is budgeted to be approximately 540 students in fiscal year 2019-20. The District's audited financial statements for fiscal year 2017-18, which are included as Appendix B, do not include the operations of Gilroy Prep Academy.

The District can make no representation as to whether enrollment at such charter school may increase at the expense of District enrollment in future years, whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's A.D.A. or finances in future years.

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

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2018, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following table contains data abstracted from financial statements prepared by the District's independent auditor, James Marta & Company LLP, Certified Public Accountants, Sacramento, California for fiscal years 2013-14 through 2017-18.

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

The table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2013-14 through 2017-18.

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**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Statement of General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2013-14 through 2017-18**

|   | Fiscal Year<br>2013-14 | Fiscal Year<br>2014-15 | Fiscal Year<br>2015-16 | Fiscal Year<br>2016-17 | Fiscal Year<br>2017-18 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>REVENUES</b>                           |                        |                        |                        |                        |                        |
| LCFF Sources                              | \$ 73,207,474          | \$ 82,832,526          | \$ 94,762,947          | \$ 102,732,634         | \$ 104,363,166         |
| Federal revenue                           | 6,367,773              | 6,302,005              | 6,848,493              | 6,537,413              | 6,670,896              |
| Other state revenues                      | 7,454,890              | 8,027,141              | 15,086,496             | 12,246,189             | 11,532,820             |
| Other local revenues                      | 4,238,430              | 4,256,421              | 3,543,846              | 2,813,216              | 2,378,504              |
| Total revenues                            | <u>91,268,567</u>      | <u>101,418,093</u>     | <u>120,241,782</u>     | <u>124,329,452</u>     | <u>124,945,386</u>     |
| <b>EXPENDITURES</b>                       |                        |                        |                        |                        |                        |
| Certificated salaries                     | 45,282,985             | 48,072,255             | 51,179,423             | 52,616,887             | 53,579,966             |
| Classified salaries                       | 13,680,082             | 15,545,110             | 16,660,800             | 17,697,290             | 18,464,661             |
| Employee benefits                         | 14,308,778             | 17,607,170             | 20,274,515             | 24,520,886             | 26,039,433             |
| Books and supplies                        | 3,279,003              | 4,404,176              | 4,388,955              | 6,551,093              | 7,239,594              |
| Services and other operating expenditures | 11,593,326             | 11,353,375             | 13,093,569             | 15,535,833             | 17,893,854             |
| Capital outlay                            | 770,471                | 756,554                | 1,483,298              | 1,263,884              | 697,119                |
| Other outgo                               | 2,515,304              | 1,896,340              | 2,194,903              | 2,613,495              | 3,145,435              |
| Debt service expenditures                 | -                      | 68,078                 | 42,235                 | 57,870                 | 55,806                 |
| Total Expenditures                        | <u>91,429,949</u>      | <u>99,703,058</u>      | <u>109,317,698</u>     | <u>120,857,238</u>     | <u>127,115,868</u>     |
| Excess of revenues over expenditures      | <u>(161,382)</u>       | <u>1,715,035</u>       | <u>10,924,084</u>      | <u>3,472,214</u>       | <u>(2,170,482)</u>     |
| <b>OTHER FINANCING SOURCES (USES)</b>     |                        |                        |                        |                        |                        |
| Operating transfers in                    | 299,410                | -                      | -                      | -                      | -                      |
| Operating transfers out                   | (739,521)              | -                      | (131,042)              | (203,429)              | -                      |
| Other sources                             | -                      | -                      | -                      | -                      | -                      |
| Other uses                                | -                      | -                      | -                      | -                      | -                      |
| Other financing sources (uses)            | <u>(440,111)</u>       | <u>-</u>               | <u>(131,042)</u>       | <u>(203,429)</u>       | <u>-</u>               |
| Net change in fund balances               | (601,493)              | 1,715,035              | 10,793,042             | 3,268,785              | (2,170,482)            |
| Fund balances, July 1                     | <u>9,472,448</u>       | <u>8,870,955</u>       | <u>10,585,990</u>      | <u>21,379,032</u>      | <u>24,647,817</u>      |
| Fund balances, June 30                    | <u>\$ 8,870,955</u>    | <u>\$ 10,585,990</u>   | <u>\$ 21,379,032</u>   | <u>\$ 24,647,817</u>   | <u>\$ 22,477,335</u>   |

Source: Gilroy Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

The following table sets forth the general fund balance sheet of the District for fiscal years 2013-14 through 2017-18.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Summary of General Fund Balance Sheet**  
**Fiscal Years 2013-14 through 2017-18**

|                                      | Fiscal Year<br>2013-14 | Fiscal Year<br>2014-15 | Fiscal Year<br>2015-16 | Fiscal Year<br>2016-17 | Fiscal Year<br>2017-18 |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| <b>ASSETS</b>                        |                        |                        |                        |                        |                        |
| Cash and cash equivalents            | \$ 3,229,161           | \$ 10,508,926          | \$ 19,528,854          | \$ 24,460,235          | \$ 25,316,070          |
| Accounts receivable                  | 10,425,172             | 4,460,669              | 6,412,072              | 3,700,632              | 2,987,449              |
| Stores                               | -                      | -                      | 74,170                 | 65,966                 | 73,817                 |
| Other assets                         | 48,550                 | 60,619                 | -                      | -                      | -                      |
| Prepaid expenses                     | -                      | -                      | 895                    | 6,850                  | 3,335                  |
| Due from other funds                 | 512,756                | 376,981                | 662,906                | 892,220                | 616,703                |
| Total assets                         | \$ 14,215,639          | \$ 15,587,195          | \$ 26,678,897          | \$ 29,125,903          | \$ 28,997,374          |
| <b>LIABILITIES AND FUND BALANCES</b> |                        |                        |                        |                        |                        |
| <b>Liabilities</b>                   |                        |                        |                        |                        |                        |
| Accounts payable                     | \$ 4,311,993           | \$ 4,428,778           | \$ 4,271,030           | \$ 3,018,015           | \$ 5,204,166           |
| Due to other funds                   | 458,137                | -                      | 183,703                | 203,930                | -                      |
| Unearned revenue                     | 574,554                | 572,427                | 845,132                | 1,256,141              | 1,315,873              |
| Total liabilities                    | 5,344,684              | 5,001,205              | 5,299,865              | 4,478,086              | 6,520,039              |
| <b>Fund balances</b>                 |                        |                        |                        |                        |                        |
| Nonspendable                         | 180,866                | 85,619                 | 100,065                | 122,816                | 127,152                |
| Restricted                           | 2,915,450              | 2,027,499              | 3,210,815              | 3,814,321              | 3,135,458              |
| Committed                            | -                      | -                      | -                      | -                      | -                      |
| Assigned                             | 462,832                | 2,396,247              | 4,828,364              | 5,964,742              | 5,679,206              |
| Unassigned                           | 5,311,807              | 6,076,625              | 13,239,788             | 14,745,938             | 13,535,519             |
| Total fund balances                  | 8,870,955              | 10,585,990             | 21,379,032             | 24,647,817             | 22,477,335             |
| Total liabilities and fund balances  | \$ 14,215,639          | \$ 15,587,195          | \$ 26,678,897          | \$ 29,125,903          | \$ 28,997,374          |

Source: Gilroy Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

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

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

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

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15

of such year written recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

The governing board of the school district, together with the county superintendent, must review and respond to the recommendations of the county superintendent on or before October 8 at a regular meeting of the governing board of the school district. The county superintendent will examine and approve or disapprove of the revised budget by November 8 of such year. If the county superintendent disapproves a revised budget, the county superintendent will call for the formation of a budget review committee. By December 31 of each year, every school district must have an adopted budget, or the Superintendent of Public Instruction (the "State Superintendent") may impose a budget and will report such school district to the State Legislature and the Department of Finance.

Subsequent to approval, the county superintendent will monitor each school district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the school district can meet its current or subsequent year financial obligations.

If, after taking various remedial actions, the county superintendent determines that a school district cannot meet its current or the subsequent year's obligations, the county superintendent will notify the school district's governing board, the State Superintendent and the president of the State board (or the president's designee) of the determination and take at least one of the following actions, and all actions that are necessary to ensure that the school district meets its financial obligations: (a) develop and impose, after also consulting with the State Superintendent and the school district's governing board, revisions to the budget that will enable the school district to meet its financial obligations in the current fiscal year, (b) stay or rescind any action inconsistent with the ability of the school district to meet its obligations for the current or subsequent fiscal year, (c) assist in developing, in consultation with the school district's governing board, a financial plan that will enable the school district to meet its future obligations, (d) assist in developing, in consultation with the school district's governing board, a budget for the subsequent fiscal year, and (e) as necessary, appoint a fiscal advisor to perform the aforementioned duties. The county superintendent will also make a report to the State Superintendent and the president of the State board or the president's designee about the financial condition of the school district and the remedial actions proposed by the county superintendent. However, the county superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the county superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200 and the Education Code (Section 42100 *et seq.*), each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based on then current projections, will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that, based on then current projections, 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, based on then current projections, will not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the Superintendent no later than

June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30.

Any school district that receives a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax and revenue anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the school district, unless the county superintendent determines that the school district's repayment of indebtedness is probable. In the last five years, the District has not received a qualified or negative certification for an interim financial report.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* property taxes levied to pay debt service on district general obligation bonds.

A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent, request an emergency appropriation from the State, in which case the county superintendent, the State Superintendent and the president of the State board or the president's designee will appoint a trustee to serve the school district until it has adequate fiscal systems and controls in place. The acceptance by a school district of an emergency apportionment exceeding 200% of the reserve recommended for that school district constitutes an agreement that the county superintendent will assume control of the school district in order to ensure the school district's return to fiscal solvency.

In the event the State elects to provide an emergency apportionment to a school district, such apportionment will constitute an advance payment of apportionments owed to the school district from the State School Fund and the Education Protection Account. The emergency apportionment may be accomplished in two ways. First, a school district may participate in a two-part financing in which the school district receives an interim loan from the State General Fund, with the agreement that the school district will subsequently enter into a lease financing with the California Infrastructure and Economic Development Bank for purposes of financing the emergency apportionment, including repaying such amounts advanced to the State General Fund. State law provides that so long as bonds from such lease financing are outstanding, the recipient school district (via its administrator) cannot file for bankruptcy. As an alternative, a school district may receive an emergency apportionment from the State General Fund that must be repaid in 20 years. Each year, the State Superintendent will withhold from the apportionments to be made to the school district from the State School Fund and the Education Protection Account an amount equal to the emergency apportionment repayment that becomes due that year. The determination as to whether the emergency apportionment will take the form of a lease financing or an emergency apportionment from the State General Fund will be based upon the availability of funds within the State General Fund.

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2019-20, and unaudited actuals for fiscal years 2016-17 through 2018-19.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**General Fund Budgets for Fiscal Years 2016-17 through 2019-20**  
**and Unaudited Actuals for Fiscal Years 2016-17 through 2018-19**

|   | 2016-17<br>Original<br>Adopted Budget | 2016-17<br>Unaudited<br>Actuals <sup>(2)</sup> | 2017-18<br>Original<br>Adopted Budget | 2017-18<br>Unaudited<br>Actuals <sup>(2)</sup> | 2018-19<br>Original<br>Adopted Budget | 2018-19<br>Unaudited<br>Actuals <sup>(2)</sup> | 2019-20<br>Original<br>Adopted Budget |
|---|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|---------------------------------------|
| <b>REVENUES</b>   |                                       |  |                                       |  |                                       |  |                                       |
| LCFF Sources  | \$99,877,327.00                       | \$102,732,634.93                               | \$104,137,111.00                      | \$104,363,165.23                               | \$108,423,647.00                      | \$110,001,781.52                               | \$111,078,668.00                      |
| Federal Revenue   | 6,775,677.69                          | 6,537,413.75                                   | 6,295,927.00                          | 6,670,895.32                                   | 6,207,026.76                          | 6,939,127.42                                   | 6,756,951.57                          |
| Other State Revenue   | 6,850,166.36                          | 12,246,189.51                                  | 8,249,260.00                          | 11,532,820.20                                  | 11,916,673.69                         | 17,920,316.12                                  | 9,620,840.19                          |
| Other Local Revenue   | 2,417,883.85                          | 2,813,216.93                                   | 1,369,588.00                          | 2,378,494.73                                   | 1,484,455.01                          | 2,151,960.92                                   | 1,490,321.30                          |
| <b>TOTAL REVENUES</b>   | <b>115,921,054.80</b>                 | <b>124,329,455.12</b>                          | <b>120,051,886.00</b>                 | <b>124,945,375.48</b>                          | <b>128,031,802.46</b>                 | <b>137,013,185.98</b>                          | <b>128,946,781.06</b>                 |
| <b>EXPENDITURES</b>   |                                       |  |                                       |  |                                       |  |                                       |
| Certificated Salaries   | 52,522,943.12                         | 52,616,885.68                                  | 54,013,453.37                         | 53,579,963.69                                  | 54,152,546.43                         | 54,124,609.51                                  | 54,664,067.57                         |
| Classified Salaries   | 17,349,956.05                         | 17,697,281.53                                  | 17,992,476.34                         | 18,464,657.58                                  | 19,035,087.31                         | 19,017,957.72                                  | 19,475,733.32                         |
| Employee Benefits   | 20,360,602.28                         | 24,520,879.70                                  | 27,487,874.91                         | 26,039,431.70                                  | 29,773,927.56                         | 33,215,577.46                                  | 31,022,132.72                         |
| Books and Supplies  | 6,797,133.79                          | 6,551,088.56                                   | 5,857,407.36                          | 7,239,591.46                                   | 5,553,338.15                          | 5,803,773.05                                   | 5,482,292.66                          |
| Services, Other Operating Expenses                            | 13,297,031.90                         | 15,535,861.46                                  | 13,455,497.14                         | 17,893,847.87                                  | 13,216,604.79                         | 17,547,870.02                                  | 15,594,885.48                         |
| Capital Outlay  | 1,180,161.65                          | 1,263,882.33                                   | 258,125.71                            | 697,117.60                                     | 414,752.35                            | 456,410.82                                     | 632,486.98                            |
| Other Outgo (excluding Direct Support/Indirect Costs)         | 2,886,089.33                          | 2,817,579.12                                   | 3,421,069.09                          | 3,443,749.77                                   | 3,843,244.88                          | 3,705,660.63                                   | 3,961,875.18                          |
| Transfers of Direct Support/Indirect Costs                    | (338,979.00)                          | (146,215.00)                                   | (279,436.00)                          | (242,508.51)                                   | (221,729.00)                          | (326,337.23)                                   | (193,570.67)                          |
| <b>TOTAL EXPENDITURES</b>                                     | <b>114,055,139.12</b>                 | <b>120,857,243.38</b>                          | <b>122,206,467.92</b>                 | <b>127,115,851.16</b>                          | <b>125,767,772.47</b>                 | <b>133,545,521.98</b>                          | <b>130,639,903.24</b>                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>      | <b>1,865,915.68</b>                   | <b>3,472,211.74</b>                            | <b>(2,154,581.92)</b>                 | <b>(2,170,475.68)</b>                          | <b>2,264,029.99</b>                   | <b>3,467,664.00</b>                            | <b>(1,693,122.18)</b>                 |
| <b>OTHER FINANCING SOURCES (USES)</b>                         |                                       |  |                                       |  |                                       |  |                                       |
| Inter-fund Transfers In                                       | -                                     | -  | -                                     | -  | -                                     | -  | -                                     |
| Inter-fund Transfers Out                                      | -                                     | (203,428.71)                                   | -                                     | -  | (103,217.00)                          | -  | -                                     |
| Other Sources (Uses)  | -                                     | -  | -                                     | -  | -                                     | -  | -                                     |
| Contributions   | -                                     | -  | -                                     | -  | -                                     | -  | -                                     |
| <b>TOTAL, OTHER FINANCING SOURCES (USES)</b>                  | <b>-</b>                              | <b>(203,428.71)</b>                            | <b>-</b>                              | <b>-</b>                                       | <b>(103,217.00)</b>                   | <b>-</b>                                       | <b>-</b>                              |
| <b>NET INCREASE (DECREASE) IN FUND BALANCE</b>                | <b>1,865,915.68</b>                   | <b>3,268,783.03</b>                            | <b>(2,154,581.92)</b>                 | <b>(2,170,475.68)</b>                          | <b>2,160,812.99</b>                   | <b>3,467,664.00</b>                            | <b>(1,693,122.18)</b>                 |
| <b>BEGINNING BALANCE, as of July 1</b>                        | <b>11,874,556.40</b>                  | <b>21,460,709.93</b>                           | <b>11,462,142.63</b>                  | <b>24,647,815.39</b>                           | <b>13,090,028.52</b>                  | <b>22,477,339.71</b>                           | <b>12,490,335.24</b>                  |
| <b>Audit Adjustments<sup>(1)</sup> As of July 1 – Audited</b> | <b>-</b>                              | <b>(81,677.57)</b>                             | <b>-</b>                              | <b>-</b>                                       | <b>-</b>                              | <b>-</b>                                       | <b>-</b>                              |
| <b>Other Restatements</b>                                     | <b>-</b>                              | <b>-</b>                                       | <b>-</b>                              | <b>-</b>                                       | <b>-</b>                              | <b>-</b>                                       | <b>-</b>                              |
| <b>Adjusted beginning Balance</b>                             | <b>11,874,556.40</b>                  | <b>21,379,032.36</b>                           | <b>11,462,142.63</b>                  | <b>24,647,815.39</b>                           | <b>13,090,028.52</b>                  | <b>22,477,339.71</b>                           | <b>12,490,335.24</b>                  |
| <b>ENDING BALANCE</b>   | <b>\$13,740,472.08</b>                | <b>\$24,647,815.39</b>                         | <b>\$9,307,560.71</b>                 | <b>\$22,477,339.71</b>                         | <b>\$15,250,841.51</b>                | <b>\$25,945,003.71</b>                         | <b>\$10,797,213.06</b>                |
| <b>Unrestricted Balance</b>                                   | <b>\$13,740,472.08</b>                | <b>\$20,833,494.31</b>                         | <b>\$9,307,560.71</b>                 | <b>\$19,341,881.74</b>                         | <b>\$15,250,841.51</b>                | <b>\$22,402,123.98</b>                         | <b>\$10,797,213.06</b>                |
| <b>Restricted Balance</b>                                     | <b>-</b>                              | <b>\$3,814,321.08</b>                          | <b>-</b>                              | <b>\$3,135,457.97</b>                          | <b>-</b>                              | <b>\$3,542,879.73</b>                          | <b>-</b>                              |

<sup>(1)</sup> The audit adjustment for fiscal year 2016-17 was the result of the District's prior billing management system not clearing an accrual correctly. The District no longer uses such system for billing management.

<sup>(2)</sup> Total amounts do not match the District's Statement of Revenues, Expenditures and Changes in Fund Balances in its audited financial statements because the amounts reflected in such Statement in the District's audited financial statements include the financial activity of the Special Reserve for Other Than Capital Outlay Projects, Adult Education Fund and Deferred Maintenance Funds, in accordance with GASB Statement No. 54, which funds are not included in the District's internal financial reports.

Source: Gilroy Unified School District adopted general fund budgets for fiscal years 2016-17 through 2019-20; and unaudited actuals for fiscal years 2016- through 2018-19.

## District Debt Structure

**Long-Term Debt Summary.** A schedule of the District's long-term obligations for the year ended June 30, 2018, consisted of the following:

| Long-Term Debt                                    | Balance<br>July 1, 2017 | Additions    | Deductions  | Balance<br>June 30, 2018 | Amounts Due<br>in One Year |
|---|-------------------------|--------------|-------------|--------------------------|----------------------------|
| General obligation bonds <sup>(1)(2)(3)</sup>     | \$248,517,823           | \$761,963    | \$7,435,000 | \$241,844,786            | \$6,185,000                |
| Certificates of participation                     | 26,765,000              | -            | 810,000     | 25,955,000               | 845,000                    |
| Accumulated vacation                              | 107,913                 | 25,335       | -           | 133,248                  | -                          |
| Net Pension Liability                             | 109,240,202             | 12,485,754   | -           | 121,725,956              | -                          |
| Supplemental Employee Retirement Plan             | 447,742                 | -            | 223,871     | 223,871                  | 223,871                    |
| Subtotal  | 385,078,680             | 13,273,052   | 8,468,871   | 389,882,861              | 7,253,871                  |
| Unamortized general obligation bond premium       | 17,055,460              | -            | 717,491     | 16,337,969               | -                          |
| Unamortized certificates of participation premium | 2,173,423               | -            | 108,220     | 2,065,203                | -                          |
| Unamortized loss on refunding                     | (8,710,115)             | -            | (597,504)   | (8,112,611)              | -                          |
| Total long term obligation                        | \$395,597,448           | \$13,273,052 | \$8,697,078 | \$400,173,422            | \$7,253,871                |

<sup>(1)</sup> Includes the Prior Authority Bonds; does not include the Refunding Bonds or the Series 2019 Bonds.

<sup>(2)</sup> Includes accreted interest.

<sup>(3)</sup> Reflects the higher outstanding principal amount of the Gilroy School Facilities Financing Authority General Obligation Revenue Bonds, Series A, issued on March 13, 2013, instead of the District's related Series 2013 Bonds and Series 2013 Refunding Bonds. See "THE REFUNDING BONDS – Outstanding Bonds; Aggregate Debt Service" in the forepart of this Official Statement.

Source: Gilroy Unified School District Audited Financial Report for fiscal year 2017-18.

**General Obligation Bonds.** Prior to the issuance of the Refunding Bonds, the District has outstanding seven series of general obligation bonds, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Refunding Bonds.

See "THE REFUNDING BONDS – Outstanding Bonds" and "– Aggregate Debt Service" in the front portion of the Official Statement for more information about such outstanding bonds.

**Certificates of Participation.** At an election held in the District on June 4, 1974, voters of the District approved the levy of an *ad valorem* tax rate override of 25.5¢ per \$100 of assessed valuation, authorized to be used to pay rent under a lease for certain school facilities. On November 3, 1992, voters reauthorized the use of the tax for additional projects and reduced the rate to 7.05¢ per \$100 of assessed valuation (under a proposition known as "Measure J"), which may be levied as needed through fiscal year 2010-11. The series of certificates of participation issued in 2001, 2004 and 2007 described below represent a general fund obligation of the District; however, the proceeds of the tax were lawfully available and used and sufficient to pay all such obligations.

In June 2001, the District caused certificates of participation to be executed and delivered in the principal amount of \$31,250,000 with interest rates ranging from 2.90% to 5.50% per year, in order to refund an outstanding issue of certificates of participation and provide new construction funds for Measure J capital projects. On September 1, 2011 the outstanding principal balance of \$7,210,000 was paid off.

In March 2004, the District caused certificates of participation to be executed and delivered in the principal amount of \$8,550,000, maturing in 2013, with interest rates ranging from 2.50% to 3.0% per year, in order to provide construction funds for Measure J capital projects. On September 1, 2011 the outstanding principal balance of \$1,925,000 was paid off.

In July 2007, the District caused certificates of participation to be executed and delivered in the principal amount of \$5,725,000 with interest rates ranging from 4.50% to 5.00% per year, maturing on September 1, 2012, in order to provide construction funds for Measure J capital projects. The final payment with respect to such certificates of participation was made on September 1, 2012, and the principal balance has been paid off.

In May 2008, the District caused the certificates of participation to be executed and delivered in the principal amount of \$33,000,000 with interest rates ranging from 3.75% to 5.25% per year, payable through April 1, 2039, in order to provide construction funds for Christopher High School (the “2008 COPs”). These certificates of participation represent a general fund obligation of the District that is not payable with Measure J tax proceeds.

In July 2016, the District caused refunding certificates of participation (the “2016 Refunding COPs”) to be executed and delivered in the principal amount of \$27,870,000 with interest rates ranging from 2.00% to 4.00% in order to prepay the 2008 COPs. These certificates of participation represent a general fund obligation of the District that is not payable with Measure J tax proceeds.

The aggregate annual repayment obligation for such certificates of participation as of June 30, 2018, is set forth below:

| Year Ending<br>June 30 | Principal    | Interest     | Total        |
|------------------------|--------------|--------------|--------------|
| 2019                   | \$ 845,000   | \$ 924,950   | \$ 1,769,950 |
| 2020                   | 865,000      | 899,600      | 1,764,600    |
| 2021                   | 880,000      | 873,650      | 1,753,650    |
| 2022                   | 925,000      | 838,450      | 1,763,450    |
| 2023                   | 945,000      | 801,450      | 1,746,450    |
| 2024-2028              | 5,385,000    | 3,404,450    | 8,789,450    |
| 2029-2033              | 6,495,000    | 2,241,850    | 8,736,850    |
| 2034-2038              | 7,890,000    | 982,500      | 8,872,500    |
| 2039-2040              | 1,725,000    | 51,750       | 1,776,750    |
| Total                  | \$25,955,000 | \$11,018,650 | \$36,973,650 |

Source: Gilroy Unified School District Audited Financial Report for fiscal year 2017-18.

**Early Retirement Incentives.** In the fiscal year 2009-10, the District offered an early retirement incentive to eligible certificated employees. Fourteen employees took the incentives. Retirement benefits totaling \$814,585 will be paid out in installments of \$162,917 each year for the next five years starting on August 1, 2009. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District and the end of fiscal year 2008-09.

In fiscal year 2010-11, the District offered an early retirement incentive to eligible certificated employees. Seventeen employees took the incentives. Retirement benefits totaling \$890,935 will be paid out in installments of \$178,187 each year for the next five years starting on August 1, 2010. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of fiscal year 2009-10.

In fiscal year 2011-12, the District offered an early retirement incentive to eligible certificated employees. Twelve employees took the incentives. Retirements benefits totaling \$633,520 will be paid out in installments of \$126,704 each year for the next five years starting on August 1, 2011. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of fiscal year 2010-11.

In fiscal year 2013-14, the District offered an early retirement incentive to eligible certificated employees. Twenty-two employees took the incentives. Retirement benefits totaling \$1,063,075 will be paid out in installments to \$212,603 each year for the next five years starting on July 1, August 1, 2014. The offers were extended to those who were at least 58 years of age with 10 or more years of permanent services to the District at the end of fiscal year 2013-14. In fiscal years 2014-15, 2015-16, 2016-17 and 2017-18, the District did not offer an early retirement incentive.

No Other Post-Employment Benefits (OPEBs). Other than the retirement plan benefits with CalSTRS and CalPERS (see “– Retirement Benefits” below), the District does not provide any other post-retirement healthcare benefits to District employees.

***Tax and Revenue Anticipation Notes.*** Because District revenues from local property taxes and State apportionments are received at irregular intervals throughout the year, while expenditures tend to be incurred on a regular monthly basis, the District has usually found it necessary to borrow for short-term cash needs by issuance of tax and revenue anticipation notes each year, as set forth in the table below. The District’s notes are a general obligation of the District, payable from the District’s general fund and any other lawfully available moneys, but for which the District has no taxing authority.

| Issuance Date | Principal Amount | Interest Rate | Yield | Due Date       |
|---------------|------------------|---------------|-------|----------------|
| July 3, 2004  | \$5,945,000      | 3.00%         | 1.60% | July 6, 2005   |
| July 1, 2005  | 5,000,000        | 4.00          | 2.60  | July 6, 2006   |
| July 6, 2006  | 5,965,000        | 4.50          | 3.50  | July 6, 2007   |
| July 6, 2007  | 9,725,000        | 4.25          | 3.62  | July 6, 2008   |
| July 1, 2008  | 9,780,000        | 1.65          | 2.00  | July 6, 2009   |
| July 6, 2009  | 9,885,000        | 2.50          | 0.60  | July 1, 2010   |
| July 1, 2010  | 12,410,000       | 2.00          | 0.90  | July 1, 2011   |
| July 28, 2011 | 7,224,000        | 2.00          | 0.32  | April 30, 2012 |
| July 2, 2012  | 5,000,000        | 2.00          | 0.50  | May 1, 2013    |
| July 15, 2013 | 8,020,000        | 2.00          | 0.21  | June 2, 2014   |
| July 3, 2014  | 6,880,000        | 2.00          | 0.12  | June 30, 2015  |
| July 16, 2015 | 6,915,000        | 2.00          | 0.32  | June 30, 2016  |
| July 13, 2016 | 1,615,009        | 2.90          | 0.63  | June 30, 2017  |
| July 7, 2017  | 6,795,000        | 3.00          | 0.95  | June 29, 2018  |
| July 12, 2018 | 4,955,000        | 3.00          | 1.60  | June 28, 2019  |

In fiscal year 2017-18, the District issued \$4,955,000 aggregate principal amount of tax and revenue anticipation notes (the “Series 2018 Notes”), dated July 12, 2018 through the California School Cash Reserve Program Authority. The Series 2018 Notes matured on June 28, 2019. The District did not issue tax and revenue anticipation notes in fiscal year 2018-19, but may issue tax and revenue anticipation notes in future fiscal years to supplement cash flow as necessary.

## Employment

As of September 2019, the District employed 576 FTE certificated (teaching staff) employees, 414 FTE classified employees and 61 management and supervisory personnel. For fiscal year 2018-19, the total certificated and classified payrolls for all funds of the District were \$54.12 million (unaudited) and \$19.02 million (unaudited), respectively, and are budgeted to be \$54.66 million and \$19.48 million, respectively, in fiscal year 2019-20. Such amounts exclude benefits paid to certificated and classified employees.



District employees are represented by employee bargaining units as follows:

| Name of Bargaining Unit                          | Number of Employees Represented | Current Contract Expiration Date |
|--|---------------------------------|----------------------------------|
| Gilroy Teachers Association                      | 576                             | June 30, 2020                    |
| Gilroy Federation of Paraeducators               | 144                             | June 30, 2020                    |
| California School Employees Association – Ch. 69 | 270                             | June 30, 2021                    |

Source: Gilroy Unified School District.

## Retirement Benefits

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

**CalSTRS.** Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as “pre-enhancement benefits”) within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State’s total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers’ Retirement Board voted to adopt revised actuarial assumptions reflecting members’ increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2018, an actuarial valuation (the “2018 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$107.2 billion, a decrease of approximately \$0.1 billion from the June 30, 2017 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2018, June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 64.0%, 62.6%, 63.7% and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions used for the CalSTRS valuation. The following are certain of the actuarial assumptions set forth in the 2018 CalSTRS Actuarial Valuation: measurement of accruing costs by the “Entry Age Normal Actuarial Cost Method,” an assumed 7.00% investment rate of return for measurements subsequent to June 30, 2016, 3.00% interest on member accounts, 3.50% projected wage growth, and 2.75% projected inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2018 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPPRA (as defined herein). See “—Governor’s Pension Reform” below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

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

| Effective Date<br>(July 1) | School District<br>Contribution Rate |
|----------------------------|--------------------------------------|
| 2014                       | 8.88%                                |
| 2015                       | 10.73                                |
| 2016                       | 12.58                                |
| 2017                       | 14.43                                |
| 2018                       | 16.28                                |
| 2019                       | 17.10*                               |
| 2020                       | 18.40*                               |

\* Pursuant to the 2019-20 State Budget. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget.”  
Source: Assembly Bill 1469.

The following table sets forth the District's employer contributions to CalSTRS as well as the State's required non-employer contribution on behalf of the District for fiscal years 2015-16 through 2017-18 and the unaudited and budgeted contributions for fiscal years 2018-19 and 2019-20, respectively.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Contributions to CalSTRS for Fiscal Years 2015-16 through 2019-20**

| Fiscal Year            | District Contribution | STRS On-Behalf<br>Amounts |
|------------------------|-----------------------|---------------------------|
| 2015-16                | \$5,383,474           | \$3,216,986               |
| 2016-17                | 6,504,361             | 4,152,840                 |
| 2017-18                | 7,479,391             | 4,193,095                 |
| 2018-19 <sup>(1)</sup> | 8,370,171             | 4,682,549                 |
| 2019-20 <sup>(2)</sup> | 9,124,405             | 4,939,404                 |

<sup>(1)</sup> Unaudited actuals for fiscal year 2018-19.

<sup>(2)</sup> Original adopted budget for fiscal year 2019-20.

Source: Gilroy Unified School District.

The District's total employer contributions to CalSTRS for fiscal years 2015-16 through 2018-19 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

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

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

School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17, and 2017-18, respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19. Plan participants enrolled in CalPERS 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 in fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19.

Since the June 30, 2015 valuation, CalPERS has employed an amortization and smoothing policy that apportions all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a five-year period. In contrast, the previous policy spread investment returns over a

15-year period with experience gains and losses spread over a rolling 30-year period. On December 21, 2016, the CalPERS Board of Administration lowered the discount rate from 7.50 percent to 7.00 percent using a three-year phase-in beginning with the CalPERS Schools Pool Actuarial Valuation as of June 30, 2017 (the “2017 CalPERS Schools Pool Actuarial Valuation”). The amounts of the pension/award benefit obligation or UAAL will vary from time to time depending upon actuarial assumptions, and actual rates of return on investments, salary scales, and levels of contribution.

The actuarial funding method used in the 2017 CalPERS Schools Pool Actuarial Valuation is the “Entry Age Normal Cost Method.” The 2017 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.75% inflation and payroll growth of 3.00% compounded annually. The 2017 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.375% compounded annually (net of administrative expenses) as of June 30, 2017, 7.25% compounded annually (net of administrative expenses) as of June 30, 2018, and 7.0% compounded annually (net of administrative expenses) as of June 30, 2019. The first reduction in the investment rate of return will impact the District’s employer contribution rates beginning in fiscal year 2018-19. The CalPERS Board also adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.75% as of June 30, 2017, to 2.625% as of June 30, 2018, and finally to 2.50% as of June 30, 2019. The reduction in the inflation assumption results in decreases in both the normal cost and the accrued liabilities in the future. The overall payroll growth will be reduced from 3.0% annually as of June 30, 2017, to 2.875% as of June 30, 2018, and finally to 2.75% as of June 30, 2019.

On April 16, 2019, the CalPERS Board established the employer contribution rates for fiscal year 2019-20 and released certain information from the CalPERS Schools Pool Actuarial Valuation as of June 30, 2018, ahead of its summer 2019 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date, to those hired after such date, the projected contribution for fiscal year 2020-21 is projected to be 23.6%, with annual increases and decreases thereafter, resulting in a projected 26.5% employer contribution rate for fiscal year 2025-26.

The following table sets forth the District’s total employer contributions to CalPERS from all funds of the District for fiscal years 2015-16 through 2017-18, and the unaudited contribution and budgeted contribution for fiscal years 2018-19 and 2019-20, respectively.

**GILROY UNIFIED SCHOOL DISTRICT**  
**(Santa Clara County, California)**  
**Contributions to CalPERS for Fiscal Years 2015-16 through 2019-20**

| Fiscal Year            | Contribution |
|------------------------|--------------|
| 2015-16                | \$2,047,315  |
| 2016-17                | 2,565,408    |
| 2017-18                | 2,979,973    |
| 2018-19 <sup>(1)</sup> | 4,302,834    |
| 2019-20 <sup>(2)</sup> | 4,878,232    |

<sup>(1)</sup> Unaudited actuals for fiscal year 2018-19.

<sup>(2)</sup> Original adopted budget for fiscal year 2019-20.

Source: Gilroy Unified School District.

The District’s total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years

as the increased costs are phased in. The implementation of PEPR (see “*Governor’s Pension Reform*” below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

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

***Governor’s Pension Reform.*** On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees’ Pension Reform Act of 2012 (“PEPRA”) which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District’s future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District’s pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 6 to the District’s financial statements in APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018.”

***GASB 67 and 68.*** In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans (“Statement Number 67”), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions (“Statement Number 68”), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government’s balance sheet (such unfunded liabilities were typically included as notes to the government’s financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain

purposes of the financial statements, which generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

### **Insurance and Joint Ventures**

The District is a member of two joint powers authorities (“JPAs”): the Santa Clara County Schools Insurance Group (“SCCSIG”). The District pays an annual premium to the entities for their coverage. The relationship between the District and the JPAs is such that the JPAs are not component units of the District for financial reporting purposes. The JPAs provide insurance and services as noted for member school districts.

The JPAs are governed by boards consisting of a representative from each member district. The governing boards control the operations of each JPA, independent of any influence by the District beyond the District’s representation on the governing board. Each member district pays premiums and fees commensurate with the level of coverage or services requested, and shares surpluses and deficits proportionate to its participation in each JPA.

See Note 9 to the District’s audited financial statements in APPENDIX B— “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018” for more information.

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

### **Limitations on Revenues**

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (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. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

***County of Orange v. Orange County Assessment Appeals Board No. 3.*** Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restoration of value of the damaged property. The constitutionality of this procedure was

challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new “base year value” for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIII A. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

***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 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

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 market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

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

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

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D (“Article XIII C” and “Article XIII D,” respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific

purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

### **Statutory Limitations**

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

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

### **Proposition 98 and Proposition 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"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 districts and community college districts (collectively, "K-14 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, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance 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 districts than the 40.9%, 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 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 districts Appropriations Limits 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 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 schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

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

#### **Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos***

On February 1, 2012, pursuant to the California Supreme Court's decision in *California Redevelopment Association v. Matosantos*, Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer

dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency were transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

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

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

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State’s income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see “– Proposition 98 and Proposition 111” above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the California Tax Extension to Fund Education and Healthcare Initiative (“Proposition 55”), approved by the voters on November 8, 2016, extends by 12 years the temporary personal income tax increases on incomes over \$250,000 that was first enacted by Proposition 30; Proposition 55 did not extend the sales and use tax increases imposed by Proposition 30. Revenues from the income tax increase under Proposition 55 will be allocated to school districts and community colleges in the State.

### **Applications of Constitutional and Statutory Provisions**

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see “DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process.”

## Proposition 2

**General.** Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

**Rainy Day Fund.** The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year's deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year's deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the "Public School System Stabilization Account") to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

The 2019-20 State Budget includes a constitutionally required deposit into the Public School System Stabilization Account in the amount of \$376.5 million. Such deposit to the Public School System Stabilization Account does not initiate any school district reserve caps under SB 858 or SB 751 (described below), as the amount in the Public School System Stabilization Account (which is equal to the fiscal year 2019-20 deposit) is not equal to or greater than 3% of the total K-12 share of the Proposition 98 Guarantee (approximately \$2.1 billion). See "DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2019-20 State Budget."

**SB 858.** Senate Bill 858 ("SB 858") became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses.

**SB 751.** Senate Bill 751 ("SB 751"), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediate after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic

aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

The Refunding Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 or SB 751 to adversely affect its ability to pay the principal of and interest on the Refunding Bonds as and when due.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

**APPENDIX B**

**FINANCIAL STATEMENTS OF THE DISTRICT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

## **APPENDIX C**

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

*Upon issuance and delivery of the Refunding Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Refunding Bonds in substantially the following form:*

**APPENDIX D**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## **APPENDIX E**

### **THE SANTA CLARA COUNTY POOLED SURPLUS INVESTMENTS**

*The following information has been supplied by the County of Santa Clara (the “County”) Treasurer and Tax Collector (the “Treasurer”). Neither the District nor the Underwriter can make any representations regarding the accuracy and completeness of the information. The full Monthly Investment Report is available from the Treasurer.*

*Neither the District nor the Underwriter has made an independent investigation of the investments in the Treasury Pool or an assessment of the current Investment Policy. The value of the various investments in the Treasury Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County may change the Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Treasury Pool will not vary significantly from the values described herein.*



## **APPENDIX F**

### **SANTA CLARA COUNTY TREASURY INVESTMENT POLICY**

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

*The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Refunding Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Refunding Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.*

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

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

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

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

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

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

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

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

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

11. 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.