

NEW ISSUES—BOOK-ENTRY ONLY

Ratings: Moody's: "[]"
S&P: "[]"

(See "MISCELLANEOUS — Ratings" 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 New Money Bonds maturing on and after August 1, 2021 (the "Tax-Exempt Bonds") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). In the further opinion of Bond Counsel, interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Series 2021 Bonds is exempt from State of California personal income taxes. Bond Counsel further observes that interest on the Refunding Bonds and the New Money Bonds maturing on May 1, 2021 (the "New Money Taxable Bonds" and together with the Refunding Bonds, the "Taxable Bonds") is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2021 Bonds. See "TAX MATTERS" herein.]

\$94,680,000*

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Bonds,
Election of 2016, Series 2021

[\$REFPAR]*

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Refunding Bonds, Series 2021
(Federally Taxable)

Dated: Date of Delivery

Due: 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 Bonds, Election of 2016, Series 2021 (the "New Money Bonds") are issued by the Gilroy Unified School District (the "District"), located in the County of Santa Clara, California (the "County"), to (i) finance specific projects approved by the voters of the District, and (ii) pay costs of issuance of the New Money Bonds, as further described herein. The New Money Bonds were authorized at an election of the voters of the District held on June 7, 2016, at which at least 55% of the voters voting on the proposition authorized the issuance and sale of \$170,000,000 principal amount of bonds of the District. The New Money 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 February 11, 2021.

The Gilroy Unified District (Santa Clara County, California) General Obligation Refunding Bonds, Series 2021 (Federally Taxable) (the "Refunding Bonds") are being issued (i) to refund a portion of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2015, (ii) to refund a portion of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2015, and (iii) to pay costs of issuance of the Refunding Bonds. The Refunding Bonds are being issued under the laws of the State and pursuant to a resolution of the Board of Education of the District, adopted on February 11, 2021. The New Money Bonds and the Refunding Bonds are referred to collectively herein as the "Series 2021 Bonds."

The Series 2021 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 Series 2021 Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2021 BONDS" herein.

The Series 2021 Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Tax-Exempt Bonds and the Refunding Bonds is payable on each February 1 and August 1 to maturity or earlier redemption thereof, commencing August 1, 2021. Interest on the New Money Taxable Bonds is payable at maturity. Principal of the Tax-Exempt Bonds and 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. Principal of the New Money Taxable Bonds is payable on May 1, 2021 in the amount set forth on the inside front cover hereof.

The Series 2021 Bonds will be issued in denominations of \$5,000 principal amount, or any integral multiple thereof as shown on the inside front cover hereof.

[As more fully described herein, the District may obtain a municipal bond insurance policy to guarantee the scheduled payment of principal of and interest on the Series 2021 Bonds as such payments become due. The District's decision whether or not to obtain such a policy will be made at or about the time of pricing of the Series 2021 Bonds and will be based upon, among other things, market conditions at the time of such pricing. No assurance can be given as to whether the District will obtain such a policy, and, if so, whether such policy will cover all or less than all of the Series 2021 Bonds.]

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

The Series 2021 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 Series 2021 Bonds. Individual purchases of the Series 2021 Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series 2021 Bonds purchased by them. See “THE SERIES 2021 BONDS – Form and Registration” herein. Payments of the principal of and interest on the Series 2021 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 Series 2021 Bonds, to DTC for subsequent disbursement to DTC participants, who will remit such payments to the beneficial owners of the Series 2021 Bonds. See “THE SERIES 2021 BONDS – Payment of Principal and Interest” herein.

The Series 2021 Bonds are subject to redemption prior to maturity as described herein.* See “THE SERIES 2021 BONDS — Redemption” herein.

The Series 2021 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 Series 2021 Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about [_____], 2021.

[Raymond James logo]

Dated: _____, 2021

MATURITY SCHEDULE*
BASE CUSIP†: 376087

\$94,680,000*

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Bonds, Election of 2016, Series 2021

\$ _____ **Serial New Money Bonds**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number†</u>
<i>New Money Taxable Bonds</i>				
May 1, 2021				
<i>Tax-Exempt Bonds</i>				
August 1, 2021				
August 1, 2022				
August 1, 2023				
August 1, 2024				
August 1, 2025				
August 1, 2026				
August 1, 2027				
August 1, 2028				
August 1, 2029				
August 1, 2030				
August 1, 2031				
August 1, 2032				
August 1, 2033				
August 1, 2034				
August 1, 2035				
August 1, 2036				
August 1, 2037				
August 1, 2038				
August 1, 2039				
August 1, 2040				
August 1, 2041				
August 1, 2042				
August 1, 2043				
August 1, 2044				
August 1, 2045				
August 1, 2046				

\$ _____ % **Term Tax-Exempt Bonds due August 1, 20__** – Yield _____% - **CUSIP Number†** _____

* Preliminary; subject to change.

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MATURITY SCHEDULE*
BASE CUSIP[†]: 376087

\$(REFPAR)*
GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)

General Obligation Refunding Bonds, Series 2021 (Federally Taxable)

\$ _____ **Serial Refunding Bonds**

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number [†]
2021	\$	%	%	
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				
2042				
2043				
2044				

\$ _____ % **Term Refunding Bonds due August 1, 20__** – Yield _____ % - CUSIP Number[†] _____

* Preliminary; subject to change.

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This Official Statement does not constitute an offering of any security other than the original offering of the Series 2021 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 Series 2021 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 Series 2021 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 Series 2021 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 Series 2021 Bonds.

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Series 2021 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 Series 2021 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.

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)

BOARD OF EDUCATION

Mark Good, Trustee Area 2, *President*
Linda Piceno, Trustee Area 4, *Vice President*
Enrique Diaz, Trustee Area 1, *Member*
Michelle Nelson, Trustee Area 3, *Member*
James Pace, Trustee Area 5, *Member*
Melissa Nicholson Aguirre, Trustee Area 6, *Member*
Tuyen Fiack, Trustee Area 7, *Member*

DISTRICT ADMINISTRATORS

Deborah A. Flores, Ph.D., *Superintendent*
Alvaro Meza, *Assistant Superintendent, Business Services*
Kimberly Smith, *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

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

Escrow Bank for the Refunding Bonds

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

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

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\$94,680,000*
GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Bonds, Election of 2016,
Series 2021

[\$REFPAR]*
GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Refunding Bonds, Series 2021
(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 pages 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 Series 2021 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 pages and appendices hereto, is provided to furnish information in connection with the sale of (i) \$94,680,000* aggregate principal amount of Gilroy Unified School District (Santa Clara County, California) General Obligation Bonds, Election of 2016, Series 2021 (the “New Money Bonds”) and (ii) [\$REFPAR]* aggregate principal amount of Gilroy Unified School District (Santa Clara County, California) General Obligation Refunding Bonds, Series 2021 (Federally Taxable) (the “Refunding Bonds”), all as indicated on the inside front cover hereof, to be offered by the Gilroy Unified School District (the “District”). The New Money Bonds and the Refunding Bonds are collectively referred to herein as the “Series 2021 Bonds.”

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 Certificates to be executed by the District. See “OTHER LEGAL MATTERS – Continuing Disclosure” and APPENDIX D – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.”

The purpose of this Official Statement is to supply information to prospective buyers of the Series 2021 Bonds. Quotations from and summaries and explanations of the Series 2021 Bonds, the resolutions of the Board of Education of the District providing for the issuance of the Series 2021 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 Series 2021 Bonds.

Copies of documents referred to herein and information concerning the Series 2021 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.

* 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 seven elementary schools, three middle schools, two comprehensive high schools, one early college academy, one continuation high school and one adult education center. There is also one independent charter school, Gilroy Prep Academy/Navigator School (“Gilroy Prep Academy”), operating within the District. The District’s enrollment for fiscal year 2019-20 was approximately 11,135 students and is projected to be 10,853 students in fiscal year 2020-21, excluding enrollment at Gilroy Prep Academy. The District’s projected fiscal year 2020-21 general fund expenditures are expected to be approximately \$156.29 million based on the District’s first interim report for fiscal year 2020-21. Taxable property in the District has a fiscal year 2020-21 total assessed value of \$11.98 billion. As of December 2020, the District employed approximately 1,039 full-time equivalent (“FTE”) employees, consisting of approximately 575 FTE non-management certificated employees, approximately 40 FTE certificated management employees, approximately 20 FTE classified non-management employees and approximately 404 FTE classified management employees. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a Board of Education (the “Board”) consisting of seven trustees, each elected by voters within the applicable trustee area 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.

The Board closed the Antonio Del Buono Elementary School in summer 2020 (following the conclusion of the 2019-20 school year) due to declining enrollment. Beginning with the 2020-21 school year, students from the Antonio Del Buono Elementary School are attending 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 July 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 then, 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, 2020.”

For specific information on the impact of the Coronavirus Disease 2019 (“COVID-19”) pandemic (i) on the security and source of payment for the Series 2021 Bonds, see “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2021 BONDS – Assessed Valuation of Property Within the District” and “–Tax Charges and Delinquencies,” (ii) on the District’s operations and finances, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease*

Outbreak,” (iii) on the fiscal year 2020-21 State budget, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *2020-21 State Budget,*” and and (iv) on the proposed fiscal year 2021-22 State budget, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Proposed 2021-22 State Budget.*”

THE SERIES 2021 BONDS

Authority for Issuance; Purpose

New Money Bonds. The New Money Bonds are issued under the provisions of California Government Code Section 53506 *et seq.*, including Section 53508.7 thereof, and California Education Code Section 15140 and Article XIII A of the California Constitution and pursuant to a resolution adopted by the Board of Education of the District on February 11, 2021, relating to the New Money Bonds (the “New Money Resolution”).

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, including improving the quality of local school facilities, renovating or replacing leaky roofs, improving student access to computers and modern technology, renovating plumbing and sewer systems, making health, safety and security improvements, upgrading science labs and classrooms throughout the District, and constructing a new elementary school (the “2016 Authorization”). The measure received the required approval of at least 55% of the votes cast by eligible voters within the District. The New Money Bonds represent the third and final series of authorized bonds to be issued under the 2016 Authorization and will be issued to finance authorized projects. Prior to the issuance of the New Money Bonds, the District has \$94,680,000 aggregate principal amount remaining that is authorized but unissued under the 2016 Authorization. See “–Plan of Finance.”

Refunding Bonds. The Refunding Bonds are issued pursuant to provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and other applicable law, and a resolution adopted by the Board of Education of the District on February 11, 2021, relating to the Refunding Bonds (the “Refunding Resolution” and together with the New Money Resolution, the “Resolutions”). Proceeds from the Refunding Bonds will be used to (i) refund a portion of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Bonds, Election of 2008, Series 2015 (the “Series 2015 New Money Bonds”), (ii) refund a portion of the outstanding Gilroy Unified School District (County of Santa Clara, California) General Obligation Refunding Bonds, Series 2015 (the “Series 2015 Refunding Bonds”), and (iii) pay costs of issuance with respect to the Refunding Bonds. See “–Plan of Refunding.”

[Possible Municipal Bond Insurance

In connection with the issuance of the Series 2021 Bonds, the District has applied for, and may obtain a municipal bond insurance policy to guarantee the scheduled payment of principal of and interest on all or a portion of the Series 2021 Bonds as such payments shall become due.

No assurance can be given as to whether a commitment will be issued by an insurer to the District and, if a commitment is issued by an insurer to the District, no assurance can be given as to (a) whether the District will decide to obtain an insurance policy from an insurer in connection with the issuance of the Series 2021 Bonds, or (b) whether the District will insure all or less than all of the Series 2021 Bonds. If a commitment is issued by an insurer to the District, the District’s decision as to whether the insurance policy

will be obtained from an insurer with respect to all or a portion of the Series 2021 Bonds will be made at or about the time of the pricing of the Series 2021 Bonds and will be based upon, among other things, market conditions at the time of such pricing. If the District does decide to obtain an insurance policy from an insurer, it will be a condition to the issuance of the Series 2021 Bonds that such insurance policy be issued concurrently with the issuance of the Series 2021 Bonds.

In the event the District does decide to obtain a municipal bond insurance policy from an insurer, the insured Series 2021 Bonds (the “Insured Bonds”) would be assigned an insured rating based solely as a result of the issuance of such insurance policy, and such rating would reflect the rating agency’s views of the claims-paying ability and financial strength of the applicable insurer. The financial strength and claims-paying ability of any insurer are predicated upon a number of factors which could change over time. Neither the District nor the Underwriter has made any independent investigation into the claims-paying ability of any insurer, and no assurance or representation regarding the financial strength or projected financial strength of any insurer is given. In addition, no assurance is made that any insured rating of the Insured Bonds would not be subject to downgrade. The existence of any insurance policy will not, of itself, negatively affect the underlying rating assigned to the Series 2021 Bonds. Without regard to any bond insurance, the Series 2021 Bonds are payable from the proceeds of an *ad valorem* tax approved by the voters of the District pursuant to all applicable laws and constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series 2021 Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2021 BONDS.” However, any downward revision or withdrawal of any rating of an insurer may have an adverse effect on the market price of the Insured Bonds or the marketability (liquidity) for the Insured Bonds.

In the event of default of the payment of principal of or interest on the Insured Bonds, if any, when all or some becomes due, any owner of the Insured Bonds would have a claim under any applicable municipal bond insurance policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of optional redemption or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments would be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. No municipal bond insurance policy would insure against redemption premium, if any. The payment of principal of and interest in connection with mandatory or optional redemption of the Insured Bonds by the issuer which is recovered from an Insured Bond owner as a voidable preference under applicable bankruptcy law would be covered by any municipal bond insurance policy; however, such payments would be made by the applicable insurer at such time and in such amounts as would have been due absent such redemption unless the insurer were to choose to pay such amounts at an earlier date.

In the event any insurer becomes obligated to make payments with respect to any Insured Bonds, no assurance is given that such event will not adversely affect the market price of the Insured Bonds or the marketability (liquidity) for the Insured Bonds. The obligations of any insurer are contractual obligations and, in an event of default by an insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.]

Form and Registration

The Series 2021 Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 principal amount or integral multiples thereof. The Series 2021 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 Series 2021 Bonds. Purchases of Series 2021 Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series 2021 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 Series 2021 Bonds, beneficial owners of the Series 2021 Bonds (“Beneficial Owners”) will not receive physical certificates representing their ownership interests. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Payment of Principal and Interest

Interest. The Series 2021 Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover pages of this Official Statement. Interest on the New Money Bonds maturing on and after August 1, 2021 (the “Tax-Exempt Bonds”) and the Refunding Bonds is payable on February 1 and August 1 of each year (each a “2021-A Interest Payment Date”), commencing on August 1, 2021. Interest on the New Money Bonds maturing on May 1, 2021 (the “New Money Taxable Bonds”) is payable at maturity (the “2021-B Interest Payment Date” and together with the 2021-A Interest Payment Dates, the “Interest Payment Dates”). Interest on the Series 2021 Bonds is computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series 2021 Bond will bear interest from the Interest Payment Date 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 Series 2021 Bond (the “Record Date”) and on or prior to the succeeding Interest Payment Date for such Series 2021 Bond, in which event it will bear interest from such Interest Payment Date for such Series 2021 Bond, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date for such Series 2021 Bond, in which event it will bear interest from its dated date; provided, however, that if, at the time of authentication of any Series 2021 Bond, interest is in default on any outstanding Series 2021 Bonds, such Series 2021 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series 2021 Bonds.

Payment of Series 2021 Bonds. The principal of the Series 2021 Bonds is payable in lawful money of the United States of America to the Owners thereof, 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 Series 2021 Bonds is payable in lawful money of the United States of America by check or draft mailed 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, except that the payment will be made by wire transfer of immediately available funds to any Owner of at least \$1,000,000 of outstanding Series 2021 Bonds who have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series 2021 Bonds are held by Cede & Co., as nominee of DTC, payment will be made by wire transfer. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

Redemption*

Optional Redemption of the New Money Bonds. The New Money Bonds maturing on or before August 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates. The New Money 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 New Money Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

* Preliminary; subject to change.

Optional Redemption of the Refunding Bonds. 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 of New Money Bonds. The \$_____ term New Money 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 Redemption Date (August 1)	Principal Amount to be Redeemed
†	\$

† Maturity.	

The principal amount of the \$_____ term New Money 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 New Money Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Mandatory Sinking Fund Redemption of Refunding Bonds. 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 Redemption Date (August 1)	Principal Amount 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 Series 2021 Bonds for Redemption. If less than all of the Series 2021 Bonds are called for redemption, the Series 2021 Bonds will be redeemed in inverse order of maturities or as otherwise

directed by the District. Whenever less than all of the outstanding Series 2021 Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Series 2021 Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series 2021 Bond will be deemed to consist of individual Series 2021 Bonds of denominations of \$5,000 principal amount, each, which may be separately redeemed.

Notice of Redemption. Notice of any redemption of the Series 2021 Bonds will be given by the Paying Agent, postage prepaid, not less than 20 nor 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 bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Series 2021 Bonds. See APPENDIX D – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.”

Each notice of redemption is to contain the following information: (i) the date of such notice; (ii) the name of the Series 2021 Bonds and the date of issue of such Series 2021 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series 2021 Bonds to be redeemed; (vi) if less than all of the Series 2021 Bonds of any maturity are to be redeemed the distinctive numbers of the Series 2021 Bonds of each maturity to be redeemed; (vii) in the case of Series 2021 Bonds redeemed in part only, the respective portions of the principal amount of the Series 2021 Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series 2021 Bonds to be redeemed; (ix) a statement that such Series 2021 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 Series 2021 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. The actual receipt by the Owner of any Series 2021 Bond or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption. Neither the failure to receive such notice of redemption, nor any defect in such notice is to affect the sufficiency of the proceedings for the redemption of such Series 2021 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 Series 2021 Bonds called for redemption is set aside for the purpose of redeeming the Series 2021 Bonds, the Series 2021 Bonds designated for redemption shall 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 Series 2021 Bonds at the place specified in the notice of redemption, such Series 2021 Bonds are to be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series 2021 Bonds so called for redemption after such redemption date are entitled to the payment of such Series 2021 Bonds and the redemption premium thereon, if any, only from monies 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 Series 2021 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 Series 2021 Bonds so called for redemption. Any optional redemption and notice thereof may be rescinded if for any reason on the date fixed for redemption monies are not available in the Interest and Sinking Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Series 2021 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 Series 2021 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 Series 2021 Bonds there is to be available in the Interest and Sinking Fund, 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 Resolutions, provided, the Series 2021 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 Series 2021 Bonds to be redeemed upon presentation and surrender of such Series 2021 Bonds, provided that all monies in the Interest and Sinking Fund 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, unless otherwise provided to be paid from such monies held in trust. If, after all of the Series 2021 Bonds have been redeemed and cancelled or paid and cancelled, there are monies remaining in the Interest and Sinking Fund or otherwise held in trust for the payment of redemption price of the Series 2021 Bonds, the monies are to be held in or returned or transferred to the Interest and Sinking Fund 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 Series 2021 Bonds

The District may pay and discharge any or all of the Series 2021 Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America (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, be fully sufficient to pay and discharge the indebtedness on such Series 2021 Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Monies

Any money held in any fund created pursuant to the Resolutions 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 Series 2021 Bonds and remaining unclaimed for two years after the principal of all of the Series 2021 Bonds has become due and payable (whether by maturity or upon prior redemption) is to be transferred to the Interest and Sinking Fund 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 Finance*

The New Money Bonds represent the third and final series of authorized bonds to be issued under the 2016 Authorization and will be issued to (i) finance specific projects approved by the voters of the District, and (ii) pay costs of issuance with respect to the New Money Bonds.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the New Money Bonds, exclusive

* *Preliminary; subject to change.*

of any premium and accrued interest received by the District, will be deposited in the County treasury to the credit of the building fund of the District (the “Building Fund”) and will be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds will be applied solely for the purposes for which the New Money Bonds were authorized. Any premium or accrued interest on the New Money Bonds received by the District will be deposited in the Interest and Sinking Fund in the County treasury. Interest and earnings on each fund will accrue to that fund. All funds held by the Director of Finance of the County (the “County Treasurer”) in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX E – “SANTA CLARA COUNTY AND TREASURY INVESTMENT POLICY AND POOLED SURPLUS INVESTMENTS” for a description of the permitted investments under the investment policy of the County. In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund of the District may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the New Money Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

Plan of Refunding*

The Refunding Bonds will be issued (i) to refund and defease a portion of the outstanding Series 2015 New Money Bonds maturing on August 1 in the years [2040 and 2044], as set forth below (the “Refunded 2015 New Money Bonds”), (ii) to refund and defease a portion of the outstanding Series 2015 Refunding Bonds maturing on August 1 in the years [2027 and 2028], as set forth below (the “Refunded 2015 Refunding Bonds” and together with the Refunded 2015 New Money Bonds, the “Refunded Bonds”), and (iii) to pay certain costs of issuance of the Refunding Bonds.

REFUNDED 2015 NEW MONEY BONDS*

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Redemption Date	CUSIP†
2040	\$ 6,350,000	5.000%	3.000%	August 1, 2024	376087 DZ2
2044	13,000,000	4.000	3.540	August 1, 2024	376087 EA6

REFUNDED 2015 REFUNDING BONDS*

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	Redemption Date	CUSIP†
2027	\$5,625,000	5.000%	2.310%	August 1, 2024	376087 DV1
2028	2,000,000	5.000	2.380	August 1, 2024	376087 DW9

The maturities of the District’s outstanding Series 2015 New Money Bonds and Series 2015 Refunding Bonds listed in the following tables will not be refunded with proceeds of the Refunding Bonds.

* Preliminary; subject to change.

† 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.

UNREFUNDED SERIES 2015 NEW MONEY BONDS*

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP [†]
2033	\$1,360,000	3.000%	3.210%	376087 DX7
2034	1,545,000	3.000	3.250	376087 DY5
2035	1,625,000	3.000	3.260	376087 EB4
2036	1,780,000	3.000	3.300	376087 EC2
2038	4,725,000	3.125	3.370	376087 ED0

UNREFUNDED SERIES 2015 REFUNDING BONDS*

Maturity Date (August 1)	Principal Amount	Interest Rate	Yield	CUSIP [†]
2021	\$3,200,000	4.000%	1.350%	376087 DP4
2022	3,440,000	4.000	1.550	376087 DQ2
2023	3,775,000	4.000	1.700	376087 DR0
2024	4,130,000	4.000	1.870	376087 DS8
2025	4,430,000	4.000	2.060	376087 DT6
2026	5,035,000	4.000	2.260	376087 DU3

The District and U.S. Bank National Association, as escrow bank (the “Escrow Bank”) will enter into the Escrow Agreement, dated as of [_____] 1, 2021 (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 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 (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 (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 interest on the Refunded 2015 New Money Bonds to August 1, 2024 (the “Redemption Date”) and to redeem the Refunded 2015 New Money Bonds on the Redemption Date at a redemption price equal to the principal amount of the Refunded 2015 New Money Bonds called for redemption, together with interest accrued thereon from the last interest payment date for which interest has been paid on the Refunded 2015 New Money Bonds to the Redemption Date, without premium, and (ii) to pay, when due, the interest on the Refunded 2015 Refunding Bonds to the Redemption Date and to redeem the Refunded 2015 New Money Bonds on the Redemption Date at a redemption price equal to the principal amount of the Refunded 2015 Refunding Bonds called for redemption, together with interest accrued thereon from the last interest payment date for which interest has been paid on the Refunded 2015 Refunding Bonds to the Redemption Date, without premium, and See “ESCROW VERIFICATION” herein. Amounts on deposit with the Escrow Bank pursuant to the Escrow Agreement are not available to pay debt service on the Refunding Bonds.

* Preliminary; subject to change.

† 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.

Application and Investment of Series 2021 Bond Proceeds

The proceeds of the Series 2021 Bonds are expected to be applied as follows:

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Bonds, Election of 2016, Series 2021 and
General Obligation Refunding Bonds, Series 2021 (Federally Taxable)

Estimated Sources and Uses of Funds

<u>Sources of Funds:</u>	<u>New Money Bonds</u>	<u>Refunding Bonds</u>	<u>Total</u>
Aggregate Principal Amount	\$	\$	\$
[Plus/Less] [Net] Original Issue [Premium/Discount]		-	
Total Sources of Funds	<u>\$</u>	<u>\$</u>	<u>\$</u>
<u>Uses of Funds:</u>			
Escrow Fund	-	\$	\$
Deposit to Building Fund	\$	-	
Deposit to Interest and Sinking Fund ⁽¹⁾		-	
Costs of Issuance ⁽²⁾			
Underwriter's Discount ⁽³⁾			
Total Uses of Funds	<u>\$</u>	<u>\$</u>	<u>\$</u>

⁽¹⁾ Consists of premium received by the District.

⁽²⁾ Includes legal fees, municipal advisor fees, rating agency fee, printing fees and other miscellaneous expenses the Underwriter has contracted to pay for the New Money Bonds.

⁽³⁾ Exclusive of costs of issuance the Underwriter has contracted to pay for the New Money Bonds.

Debt Service

Debt service on the Series 2021 Bonds, assuming no early redemptions, is as set forth in the following table.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Obligation Bonds, Election of 2016, Series 2021⁽¹⁾**

Year Ending August 1,	New Money Bonds		Refunding Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
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					
Total:	\$	\$	\$	\$	\$

⁽¹⁾ The New Money Taxable Bonds mature on May 1, 2021, and interest on the New Money Taxable Bonds is due at maturity. The Tax-Exempt Bonds and the Refunding Bonds have principal maturing on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. Interest on the Tax-Exempt Bonds and the Refunding Bonds is payable on February 1 and August 1 of each year, commencing on August 1, 2021.

Source: The Underwriter.

Outstanding Bonds

In addition to the New Money Bonds and the Refunding Bonds, the District has seven series of general obligation bonds outstanding, which are secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Series 2021 Bonds.

2002 Authorization. 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 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.

2008 Authorization. The District received authorization at an election held on November 4, 2008, under Measure P to issue general obligation bonds of the District in an aggregate principal amount not to exceed \$150,000,000 to finance specific construction and modernization projects approved by the voters (the “2008 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 Series 2015 New Money 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, the Gilroy Unified School District (Santa Clara County, California) General Obligation Bonds, Election of 2008 and 2016, Series 2019 (the “Series 2019 Bonds”), were issued in the aggregate principal amount of \$44,275,000, of which \$28,955,000 aggregate amount of bonds was issued under the 2008 Authorization (the “Series 2019 Measure P Bonds”). The Series 2019 Measure P Bonds were the fourth and final series of bonds to be issued under the 2008 Authorization.

2016 Authorization. In addition, as indicated above, at an election held on June 7, 2016, voters of the District approved the 2016 Authorization, authorizing the issuance of general obligation bonds of the District in an aggregate principal amount not to exceed \$170,000,000 to finance specified projects. On January 19, 2017, the Gilroy Unified School District (Santa Clara County, California) General Obligation Bonds, Election of 2016, Series 2017 (the “Series 2017 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, the Series 2019 Bonds were issued, of which \$15,320,000 aggregate amount of bonds were issued

under the 2016 Authorization (the “Series 2019 Measure E Bonds”). The Series 2019 Measure E Bonds represent the second series of bonds to be issued under the 2016 Authorization. Prior to the issuance of the New Money Bonds, the amount of \$94,680,000 remains authorized but unissued under the 2016 Authorization.

Refunding Bonds. 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 its General Obligation Revenue Bonds, Series A (the “Series A Authority Bonds”) 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 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.

On October 31, 2019, the Gilroy Unified School District (Santa Clara County, California) General Obligation Refunding Bonds, Series 2019 (Federally Taxable) (the “Series 2019 Refunding Bonds”), in the aggregate principal amount of \$124,165,000, were issued by the District to refund all of the District’s outstanding Series 2013 Bonds and Series 2013 Refunding Bonds and the corresponding Series A Authority Bonds.

As further described herein, the Refunding Bonds are issued to refund a portion of the outstanding Series 2015 New Money Bonds and a portion of the outstanding Series 2015 Refunding Bonds. For more information, see “ – Plan of Refunding.”

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

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Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding general obligation bonds of the District, assuming no early optional redemption.

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

Year Ending August 1,	Series 2009 Bonds	Series 2015 Bonds ⁽¹⁾	Series 2015 Refunding Bonds ⁽²⁾	Series 2017 Bonds	Series 2019 Bonds	Series 2019 Refunding Bonds	New Money Bonds ⁽³⁾	Refunding Bonds	Aggregate Total Debt Service
2021	-	\$ 1,174,456.26	\$ 4,541,650.00	\$ 2,078,175.00	\$ 5,852,250.00	\$ 5,656,830.56	\$		\$
2022	-	1,174,456.26	4,653,650.00	2,078,175.00	1,525,250.00	5,550,422.30			
2023	-	1,174,456.26	4,851,050.00	2,078,175.00	1,499,450.00	5,270,217.30			
2024	-	1,174,456.26	5,055,050.00	2,078,175.00	1,524,450.00	5,343,322.30			
2025	-	1,174,456.26	5,189,850.00	2,078,175.00	1,548,250.00	4,883,994.30			
2026	-	1,174,456.26	5,617,650.00	2,078,175.00	1,555,850.00	4,635,067.80			
2027	-	1,174,456.26	6,006,250.00	2,078,175.00	1,497,850.00	4,913,011.50			
2028	-	1,174,456.26	2,100,000.00	2,078,175.00	1,490,350.00	4,618,953.20			
2029	\$5,400,000.00	1,174,456.26	-	2,818,175.00	1,537,850.00	4,456,080.00			
2030	6,200,000.00	1,174,456.26	-	2,941,175.00	1,567,600.00	4,451,474.40			
2031	3,100,000.00	1,174,456.26	-	3,066,175.00	1,517,800.00	4,454,381.20			
2032	3,400,000.00	1,174,456.26	-	3,197,675.00	1,624,600.00	4,455,762.00			
2033	-	2,534,456.26	-	3,334,925.00	1,911,800.00	6,675,566.80			
2034	-	2,678,656.26	-	3,476,725.00	1,902,000.00	6,961,295.80			
2035	-	2,712,306.26	-	3,688,800.00	1,896,600.00	7,359,634.80			
2036	-	2,818,556.26	-	3,986,800.00	2,285,400.00	7,715,271.30			
2037	-	2,920,156.26	-	4,144,800.00	2,482,600.00	8,085,319.90			
2038	-	3,714,687.50	-	4,312,800.00	2,700,200.00	7,813,816.40			
2039	-	3,827,500.00	-	4,485,000.00	2,887,000.00	8,215,848.30			
2040	-	4,048,000.00	-	4,665,800.00	1,288,800.00	8,529,881.80			
2041	-	4,400,000.00	-	4,849,400.00	1,266,600.00	8,769,219.20			
2042	-	4,429,800.00	-	5,045,200.00	1,239,800.00	9,323,755.00			
2043	-	2,672,200.00	-	5,247,200.00	1,223,600.00	11,552,388.00			
2044	-	2,688,400.00	-	5,454,600.00	1,192,600.00	12,172,930.20			
2045	-	-	-	5,676,600.00	3,852,400.00	12,831,682.60			
2046	-	-	-	5,902,000.00	3,810,400.00	13,601,290.40			
2047	-	-	-	-	5,310,400.00	12,501,875.80			
2048	-	-	-	-	13,145,600.00	-			
Total:	\$18,100,000.00	\$53,538,193.92	\$38,015,150.00	\$92,919,250.00	\$71,137,350.00	\$200,799,293.16	\$		\$

⁽¹⁾ Does not reflect the planned refunding of the Refunded 2015 New Money Bonds with proceeds of the Refunding Bonds.

⁽²⁾ Does not reflect the planned refunding of the Refunded 2015 Refunding Bonds with proceeds of the Refunding Bonds.

⁽³⁾ The New Money Taxable Bonds mature on May 1, 2021. The Tax-Exempt Bonds and the Refunding Bonds have principal maturing on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

Source: Raymond James & Associates, Inc.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2021 BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Series 2021 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, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Series 2021 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 Series 2021 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.

This statutory lien, by its terms, secures not only the Series 2021 Bonds, but also any other bonds of the District payable, as to both principal and interest, from the proceeds of *ad valorem* property taxes that may be levied pursuant to paragraphs (2) and (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. The statutory lien provision does not specify the relative priority of obligations so secured or a method of allocation in the event that the revenues received pursuant to the levy and collection of the tax are insufficient to pay all amounts then due and owing that are secured by the statutory lien.

Pledge of Tax Revenues

The District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Series 2021 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 to the payment of the principal or redemption price of and interest on the Bonds. The Resolutions provide that the property taxes and amounts held in the Interest and Sinking Fund shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund to secure the payment of the 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 Resolutions provide that this pledge constitutes an agreement between the District and the owners of the Bonds to provide security for the Bonds in addition to any statutory lien that may exist, 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 the 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 school bonds, and is charged with payment of principal and interest on the bonds when due, as ex officio treasurer of the school district.

Assessed Valuation of Property Within the District

General. Taxable property located in the District has a fiscal year 2020-21 assessed value of \$11,984,136,824. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State 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 years 2005-06 through 2020-21, 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 2020-21

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
2020-21	11,617,739,339	29,783,256	336,614,229	11,984,136,824

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, including potential market declines caused by

the effects of a 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), pandemic, 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. 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. With the outbreak of COVID-19, the world is currently experiencing a global pandemic. The pandemic may result in an economic recession or depression that causes a general market decline in property values therefore affecting the assessed value of the property in the District. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak.*”

Risk of Earthquake. The District is located in a seismically active region. The notable earthquake faults include the San Andreas and Hayward faults. Property values could be reduced by the complete or partial destruction of taxable property as a result of an earthquake.

Risk of 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.

Risk of Wildfire. Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District. 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. Notable incidents that have impacted the County and adjacent counties in recent years include the Summit Complex Fire, the Waverly Fire, the CZU Lightning Complex Fire, the SCU Lightning Complex Fire and the River Fire. The Summit Complex Fire, which started in July 2017, burned approximately 5,247 acres through the adjacent county of Stanislaus according to the California Department of Forestry and Fire Protection (“Cal Fire”). The Waverly Fire, which started in June 2018, burned approximately 12,300 acres through the adjacent county of San Joaquin and destroyed 1 structure according to Cal Fire. The CZU Lightning Complex Fire, which started in August 2020, burned approximately 86,509 acres through the adjacent counties of San Mateo and Santa Cruz, damaged 140 structures, destroyed 1,490 structures, caused 1 injury and caused 1 fatality according to Cal Fire. As of November 2020, the CZU Lightning Complex Fire is the twelfth most destructive wildfire in the recorded history of California according to Cal Fire. The SCU Lightning Complex Fire, which started in August 2020, burned approximately 396,624 acres of land in the County and the adjacent counties of Alameda, Contra Costa, Merced, San Joaquin and Stanislaus, damaged 26 structures, destroyed 222 structures and caused 6 injuries according to Cal Fire. As of November 2020, the SCU Lightning Complex Fire is the third largest wildfire in the recorded history of California according to Cal Fire. The River Fire, which started in August 2020,

burned approximately 48,088 acres through the adjacent county of Monterey, damaged 13 structures, destroyed 30 structures and caused 4 injuries according to Cal Fire. Within the boundaries of the District, no property was damaged or destroyed by the Summit Complex Fire, the Waverly Fire, the CZU Lightning Complex Fire, the SCU Lightning Complex Fire, the River Fire or other recent wildfires. Further, no District facilities were damaged or destroyed by the Summit Complex Fire, the Waverly Fire, the CZU Lightning Complex Fire, the SCU Lightning Complex Fire, the River Fire or other recent wildfires. 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. Any base year appeal must be made within four years of the change of ownership or new construction date.

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 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. However, pursuant to Section 33050 *et seq.* of the Education Code, the governing board of a school district or a county board of education, on a districtwide or countywide basis or on behalf of one or more of its schools or programs, after a public hearing on the matter, may request the State Board of Education to waive all or part of any section of the Education Code or any regulation adopted by the State Board of Education that implements a provision of the Education Code that may be waived, except for certain specified provisions of the Education Code set forth in Education Code Section 33050(a). In the bond measure approving the 2016 Authorization, it was recognized that the issuance of all of the authorized bonds might require the outstanding debt of the District to exceed its statutory bonding limit and, in order for the District to complete critical projects authorized by the 2016 Authorization in a timely and cost effective manner, [the District Board obtained a waiver of its bonding limit from the State Board of Education, permitting the District to issue bonds under the 2016 Authorization in an amount up to [_____] % of the assessed valuation of taxable property of the District.] With the effect of the waiver, the District’s fiscal year 2020-21 gross bonding capacity (also commonly referred to as the “bonding limit” or “debt limit”) is approximately \$[_____] million and its net bonding capacity is approximately \$[_____] million (taking into account current outstanding debt before the issuance of the Series 2021 Bonds and not accounting for the refunding of the Refunded 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 2020-21.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Fiscal Year 2020-21 Assessed Valuation by Jurisdiction**

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Gilroy	\$ 9,854,955,121	82.23%	\$ 9,854,955,121	100.00%
Unincorporated Santa Clara County	2,129,181,703	17.77	19,532,366,971	10.90
Total District	\$11,984,136,824	100.00%		
Santa Clara County	\$11,984,136,824	100.00%	\$550,950,021,908	2.18%

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 2020-21 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)
Fiscal Year 2020-21 Assessed Valuation and Parcels by Land Use**

	2020-21 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural	\$ 785,768,317	6.76%	1,779	9.45%
Commercial/Office	1,125,497,139	9.69	558	2.96
Industrial	702,258,372	6.04	269	1.43
Recreational	17,873,547	0.15	44	0.23
Government/Social/Institutional	64,576,496	0.56	342	1.82
Miscellaneous	33,621,031	0.29	72	0.38
Subtotal Non-Residential	<u>\$ 2,729,594,902</u>	<u>23.50%</u>	<u>3,064</u>	<u>16.27%</u>
Residential:				
Single Family Residence	\$ 7,942,569,832	68.37%	13,511	71.74%
Condominium/Townhouse	196,056,901	1.69	743	3.95
Mobile Home	12,445,172	0.11	183	0.97
2-4 Residential Units	193,151,085	1.66	393	2.09
5+ Residential Units/Apartments	330,520,695	2.84	210	1.12
Miscellaneous Residential	2,128,654	0.02	8	0.04
Subtotal Residential	<u>\$ 8,676,872,339</u>	<u>74.69%</u>	<u>15,048</u>	<u>79.90%</u>
Vacant/Undeveloped	\$ 211,272,098	1.82%	721	3.83%
Total	\$11,617,739,339	100.00%	18,833	100.00%

⁽¹⁾ 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 2020-21, including the average and median per parcel assessed value.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Fiscal Year 2020-21 Per Parcel Assessed Valuation of Single Family Homes**

	No. of Parcels	2020-21 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	13,511	\$7,942,569,832	\$587,860	\$583,298

2020-21 Assessed Valuation	No. of Parcels ⁽¹⁾	Percent of Total	Cumulative Percent of Total	Total Valuation	Percent of Total	Cumulative Percent of Total
\$0 - \$99,999	743	5.499%	5.499%	\$ 47,625,367	0.600%	0.600%
\$100,000 - \$199,999	837	6.195	11.694	125,969,687	1.586	2.186
\$200,000 - \$299,999	1,174	8.689	20.383	299,744,465	3.774	5.960
\$300,000 - \$399,999	1,443	10.680	31.064	506,526,613	6.377	12.337
\$400,000 - \$499,999	1,341	9.925	40.989	605,520,635	7.624	19.961
\$500,000 - \$599,999	1,494	11.058	52.046	824,788,527	10.384	30.345
\$600,000 - \$699,999	1,771	13.108	65.154	1,155,050,909	14.543	44.888
\$700,000 - \$799,999	1,768	13.086	78.240	1,318,717,520	16.603	61.491
\$800,000 - \$899,999	1,154	8.541	86.781	973,753,786	12.260	73.751
\$900,000 - \$999,999	615	4.552	91.333	581,075,465	7.316	81.067
\$1,000,000 - \$1,099,999	351	2.598	93.931	366,863,979	4.619	85.686
\$1,100,000 - \$1,199,999	262	1.939	95.870	300,653,671	3.785	89.471
\$1,200,000 - \$1,299,999	192	1.421	97.291	238,248,205	3.000	92.471
\$1,300,000 - \$1,399,999	122	0.903	98.194	164,747,019	2.074	94.545
\$1,400,000 - \$1,499,999	68	0.503	98.697	97,906,732	1.233	95.777
\$1,500,000 - \$1,599,999	38	0.281	98.979	58,526,589	0.737	96.514
\$1,600,000 - \$1,699,999	32	0.237	99.215	52,710,961	0.664	97.178
\$1,700,000 - \$1,799,999	28	0.207	99.423	48,964,869	0.616	97.794
\$1,800,000 - \$1,899,999	16	0.118	99.541	29,640,332	0.373	98.168
\$1,900,000 - \$1,999,999	14	0.104	99.645	27,120,982	0.341	98.509
\$2,000,000 and greater	48	0.355	100.000	118,413,519	1.491	100.000
Total	13,511	100.000%		\$7,942,569,832	100.000%	

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

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 2020-21 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 Fiscal Year 2020-21 Local Secured Taxpayers**

Property Owner	Primary Land Use	2020-21 Assessed Valuation	Percent of Total ⁽¹⁾
1. Simon Property Group	Outlet Stores	\$221,085,523	1.90%
2. Olam West Coast Inc.	Food Processing	148,017,065	1.27
3. Excel Gilroy LLC	Commercial	79,339,671	0.68
4. United Natural Foods West Inc.	Food Processing	59,995,195	0.52
5. Mabury Vineyards LLC	Apartments	56,736,066	0.49
6. Performance Food Group Inc.	Food Processing	43,571,698	0.38
7. Christopher Ranch LLC	Agricultural	43,542,361	0.37
8. Wal Mart Real Estate Business Trust	Commercial	35,881,137	0.31
9. 7610 Isabella Way LLC	Residential Care Facilities	31,549,414	0.27
10. E P & G South Valley Plaza LLC	Commercial	28,090,800	0.24
11. CalAtlantic Group Inc.	Residential Development	26,360,073	0.23
12. Calpine Gilroy Cogen LP	Industrial	26,333,230	0.23
13. Central Valley Coalition	Apartments	25,819,152	0.22
14. Towman Cadena LLC	Apartments	25,761,193	0.22
15. Costco Wholesale Corporation	Commercial	24,407,273	0.21
16. Anthony Caniamilla, Trustee	Commercial	22,000,000	0.19
17. Zanker Road Resource Management Ltd.	Disposal Site and Recycling	21,938,729	0.19
18. Tri Pointe Homes Inc.	Residential Development	20,852,880	0.18
19. Laurence F. Jorstad, Trustee	Residential Properties	20,317,146	0.17
20. Pacheco Pass Retail XII LLC	Commercial	18,889,499	0.16
		\$980,488,105	8.44%

⁽¹⁾ Fiscal year 2020-21 local secured assessed valuation: \$11,617,739,339.
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 Series 2021 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 Series 2021 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), pandemic, 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 Series 2021 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). The assessed valuation for this tax rate area for fiscal year 2020-21 is \$7,943,237,045, which comprises approximately 66.28% of the total assessed value of taxable property in the District.

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 2-001)
Fiscal Years 2016-17 through 2020-21

	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21
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 Retirement	0.00240	0.00240	0.00240	0.00240	0.00240
County Hospital and Housing Bonds	0.00860	0.02086	0.01770	0.01690	0.00690
City of Gilroy Bonds	0.02720	0.02600	0.02500	0.02000	0.01900
Gavilan Joint Community College District Bond	0.02160	0.02000	0.01920	0.04310	0.04160
Gilroy Unified School District Bonds	0.16140	0.15280	0.10840	0.15220	0.15190
Total Tax Rate	<u>\$1.26000</u>	<u>\$1.26086</u>	<u>\$1.21150</u>	<u>1.27340</u>	<u>1.26060</u>
Santa Clara Valley Water District State Water Project	<u>\$0.00860</u>	<u>\$0.00620</u>	<u>\$0.00420</u>	<u>\$0.00410</u>	<u>\$0.00370</u>
Total Land and Improvement	<u>\$0.00860</u>	<u>\$0.00620</u>	<u>\$0.00420</u>	<u>\$0.00410</u>	<u>\$0.00370</u>

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2016 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2016 Authorization will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the New Money Bonds, the District projects that the maximum tax rate required to repay the New Money Bonds, and all other outstanding bonds approved under the 2016 Authorization, will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the Board of Supervisors of the County to levy taxes at such rate as may be necessary to pay debt service on the New Money Bonds and any other series of bonds issued under the 2016 Authorization in each year.

Tax Charges and Delinquencies

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

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.

In light of the financial hardship that many taxpayers are experiencing due to COVID-19 and the related recession, the Governor issued Executive Order N-61-20, which suspends, until May 6, 2021, the statutory requirements for the imposition of penalties, costs, and interest for the failure to pay property taxes on the secured or unsecured roll, or to pay a supplemental bill provided certain conditions are met. One such condition is that the taxpayer timely files a claim for relief in a form and manner prescribed by the county treasurer-tax collector. While the District cannot predict the extent of delinquencies and delayed tax collections or the resulting impact on the District's financial condition or operations, the County has adopted the Teeter Plan (defined herein) according to which the County distributes to the District the amount levied on the secured and supplemental tax rolls, instead of the amount actually collected. See “– Teeter Plan” below. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak.*”

Property tax delinquencies may be impacted by economic and other factors beyond the District's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression can be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of a pandemic or a natural or manmade disaster, such as earthquake, drought, flood, fire, toxic dumping. It is not possible for the District to make any representation regarding the extent to which an economic recession or depression could impact the ability or willingness of property owners within the District to pay property taxes in the future. For more information on the impact of the COVID-19 pandemic, see APPENDIX A – “INFORMATION RELATING TO THE DISTRICT’S OPERATIONS AND BUDGET – DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – *Infectious Disease Outbreak.*” If delinquencies increase substantially as a result of the unprecedented events of the COVID-19 pandemic or other events outside the control of the District, the County does have the authority to increase allowances for annual reserves in the tax levy to avoid fluctuating tax levies.

The 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 2015-16 through 2019-20 are set forth below. 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 District. See “– Teeter Plan” below.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2015-16 through 2019-20**

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	Percentage Delinquent June 30
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
2018-19	11,165,478.97	107,293.06	0.96
2019-20	16,621,759.49	202,302.96	1.22

⁽¹⁾ General obligation bond debt service levy.
Source: California Municipal Statistics, Inc.

Teeter Plan

The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the amount of uncollected taxes levied on the secured tax roll credited to its fund, in the same manner as if the 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 general obligation bonds.

The Teeter Plan is to remain in effect unless the Board of Supervisors of the County 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. The District is not aware of any plans by the Board of Supervisors of the County to discontinue the Teeter Plan.

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 December 15, 2020 for debt outstanding as of January 1, 2021. 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.

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

December 15, 2020

2020-21 Assessed Valuation: \$11,984,136,824

	% Applicable	Debt 1/1/21
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	2.175%	\$ 17,675,899
Gavilan Joint Community College District	31.785	69,736,290
Gilroy Unified School District	100.000	274,702,495 ⁽¹⁾
City of Gilroy	100.000	27,087,578
City of Gilroy Community Facilities District No. 2000-1	100.000	6,560,907
Santa Clara Valley Water District Benefit Assessment District	2.175	1,424,516
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$397,187,685
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	2.175%	\$ 20,680,011
Santa Clara County Pension Obligation Bonds	2.175	7,425,432
Santa Clara County Board of Education Certificates of Participation	2.175	75,690
Gavilan Joint Community College District General Obligation Bonds	31.785	2,201,111
Gilroy Unified School District Certificates of Participation	100.000	24,245,000
City of Gilroy Certificates of Participation	100.000	30,160,000
Santa Clara County Vector Control District Certificates of Participation	2.175	43,718
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 84,830,962
Less: Santa Clara County supported obligations		694,507
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$ 84,136,455
GROSS COMBINED TOTAL DEBT		\$482,018,647⁽²⁾
NET COMBINED TOTAL DEBT		\$481,324,140

⁽¹⁾ Excludes the Series 2021 Bonds. Does not reflect the refunding of the Refunded Bonds with proceeds of the Refunding Bonds.

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

Ratios to 2020-21 Assessed Valuation:

Direct Debt (\$274,702,495).....	2.29%
Combined Direct Debt (\$298,947,495)	2.49%
Total Direct and Overlapping Tax and Assessment Debt.....	3.31%
Gross Combined Total Debt.....	4.02%
Net Combined Total Debt	4.02%

Source: California Municipal Statistics, Inc.

TAX MATTERS

Tax-Exempt Bonds

[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 Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

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

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

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

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Tax-Exempt Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Tax-Exempt Bonds. Prospective purchasers of the Tax-Exempt Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

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

Taxable Bonds

In the opinion of 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 New Money Taxable Bonds and the Refunding Bonds (collectively, the "Taxable Bonds") is exempt from State of California personal income taxes. Bond Counsel observes that interest on the Taxable 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 Taxable 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 Taxable Bonds that acquire their Taxable 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 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 Taxable 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 Taxable 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 Taxable Bonds pursuant to this offering for the issue price that is applicable to such Taxable Bonds (i.e., the price at which a substantial amount of the Taxable Bonds are sold to the public) and who will hold their Taxable 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 Taxable 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 Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Taxable 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 Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Taxable 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 Taxable 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 Taxable Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the Taxable 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.

Taxable 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 Taxable 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 Taxable Bond.

Sale or Other Taxable Disposition of the Taxable 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 Taxable Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable 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 Taxable 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 Taxable Bond (generally, the purchase price paid by the U.S. Holder for the Taxable 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 Taxable 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 Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Taxable Bonds. If the District defeases any Taxable Bond, the Taxable 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 Taxable Bond.

Information Reporting and Backup Withholding. Payments on the Taxable 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 Taxable Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable Bond) or other disposition of a Taxable 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 Taxable 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 Taxable 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 Taxable 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 Taxable Bond or a financial institution holding the Taxable 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 Taxable 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 Taxable 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 Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.]

CERTAIN ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain restrictions on employee pension and welfare benefit plans subject to ERISA (“ERISA Plans”) regarding prohibited transactions, and also imposes certain obligations on those persons who are fiduciaries with respect to ERISA Plans. Section 4975 of the Code imposes similar prohibited transaction restrictions on certain plans, including (i) tax-qualified retirement plans described in Section 401(a) and 403(a) of the Code, which are exempt from tax under section 501(a) of the Code and which are not governmental or church plans as defined herein (“Qualified Retirement Plans”), and (ii) individual retirement accounts (“IRAs”) described in Section 408(b) of the Code (the foregoing in clauses (i) and (ii), “Tax-Favored Plans”). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), non-U.S. plans (as described in Section 4(b)(4) of ERISA) and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements or Section 4975 of the Code, but may be subject to requirements or prohibitions under applicable federal, state, local, non-U.S. or other laws or regulations that are, to a material extent, similar to the requirements of ERISA and Section 4975 of the Code (“Similar Law”).

In addition to the imposition of general fiduciary obligations, including those of investment prudence and diversification and the requirement that a plan’s investment be made in accordance with the documents governing the plan, ERISA Plans are subject to prohibited transaction restrictions imposed by Section 406 of ERISA. ERISA Plans and Tax-Favored Plans are also subject to prohibited transaction restrictions imposed by Section 4975 of the Code. These rules generally prohibit a broad range of transactions between (i) ERISA Plans, Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, “Benefit Plans”) and (ii) persons who have certain specified relationships to the Benefit Plans (such persons are referred to as “Parties in Interest” or “Disqualified Persons”), in each case unless a statutory, regulatory or administrative exemption is available. The definitions of “Party in Interest” and “Disqualified Person” are expansive. While other entities may be encompassed by those definitions, they include most notably: (1) a fiduciary with respect to a Benefit Plan; (2) a person providing services to a Benefit Plan; (3) an employer or employee organization any of whose employees or members are covered by a Benefit Plan; and (4) an owner of an IRA. Certain Parties in Interest (or Disqualified Persons) that participate in a non-exempt prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Code) unless a statutory, regulatory or administrative exemption is available. Without an exemption, an owner of an IRA may disqualify his or her IRA.

Certain transactions involving the purchase, holding or transfer of the Taxable Bonds might be deemed to constitute prohibited transactions under ERISA and the Code if assets of the District were deemed to be assets of a Benefit Plan. Under final regulations issued by the United States Department of

Labor at 29 C.F.R. section 2510.3-101, as modified by Section 3(42) of ERISA (the “Plan Assets Regulation”), the assets of the District would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code if the Benefit Plan acquires an “equity interest” in the District and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument that is treated as indebtedness under applicable local law and that has no substantial equity features. Although there can be no assurances in this regard, it appears that the Taxable Bonds should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation and accordingly the assets of the District should not be treated as the assets of Benefit Plans investing in the Taxable Bonds. The debt treatment of the Taxable Bonds for ERISA purposes could change subsequent to issuance of the Taxable Bonds. In the event of a withdrawal or downgrade to below investment grade of the rating of the Taxable Bonds or a characterization of the Taxable Bonds as other than indebtedness under applicable local law, the subsequent purchase of the Taxable Bonds or any interest therein by a Benefit Plan is prohibited.

However, without regard to whether the Taxable Bonds are treated as an equity interest for such purposes, the acquisition or holding of Taxable Bonds by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the District or the Paying Agent, or any of their respective affiliates, is or becomes a Party in Interest or a Disqualified Person with respect to such Benefit Plan. The fiduciary of a Benefit Plan that proposes to purchase and hold any Taxable Bonds should consider, among other things, whether such purchase and holding may involve (i) the direct or indirect extension of credit to a Party in Interest or a Disqualified Person, (ii) the sale or exchange of any property between a Benefit Plan and a Party in Interest or a Disqualified Person, or (iii) the transfer to, or use by or for the benefit of, a Party in Interest or a Disqualified Person, of any Benefit Plan assets.

Certain status-based exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Taxable Bond. These are commonly referred to as prohibited transaction class exemptions or “PTCEs.” Included among these exemptions are:

PTCE 75-1, which exempts certain transactions between a Benefit Plan and certain brokers-dealers, reporting dealers and banks;

PTCE 96-23, which exempts transactions effected at the sole discretion of an “in-house asset manager”;

PTCE 90-1, which exempts certain investments by an insurance company pooled separate account;

PTCE 95-60, which exempts certain investments effected on behalf of an “insurance company general account”;

PTCE 91-38, which exempts certain investments by bank collective investment funds; and

PTCE 84-14, which exempts certain transactions effected at the sole discretion of a “qualified professional asset manager.”

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code generally provide for a statutory exemption from the prohibitions of Section 406(a) of ERISA and Section 4975 of the Code, commonly referred to as the “Service Provider Exemption.” The Service Provider Exemption covers transactions involving “adequate consideration” between Benefit Plans and persons who are Parties in Interest or Disqualified Persons solely by reason of providing services to such Benefit Plans or who are persons affiliated with such service providers, provided generally that such persons are not fiduciaries with

respect to “plan assets” of any Benefit Plan involved in the transaction and that certain other conditions are satisfied.

The availability of each of these PTCs and/or the Service Provider Exemption is subject to a number of important conditions which the Benefit Plan’s fiduciary must consider in determining whether such exemptions apply. There can be no assurance that all the conditions of any such exemptions will be satisfied at the time that the Taxable Bonds are acquired by a purchaser, or thereafter, if the facts relied upon for utilizing a prohibited transaction exemption change, or that the scope of relief provided by these exemptions will necessarily cover all acts that might be construed as prohibited transactions. Therefore, a Benefit Plan fiduciary considering an investment in the Taxable Bond should consult with its counsel prior to making such purchase.

By its acceptance of a Taxable Bond (or an interest therein), each purchaser and transferee (and if the purchaser or transferee is a Benefit Plan, its fiduciary) will be deemed to have represented and warranted that either (i) no “plan assets” of any Benefit Plan or a plan subject to Similar Law have been used to purchase such Taxable Bond or (ii) the purchase and holding of such Taxable Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory, regulatory or administrative exemption and will not violate Similar Law. A purchaser or transferee who acquires Taxable Bonds with assets of a Benefit Plan represents that such purchaser or transferee has considered the fiduciary requirements of ERISA, the Code or Similar Laws and has consulted with counsel with regard to the purchase or transfer.

None of the District, the Paying Agent, or the Underwriter is undertaking to provide impartial investment advice or to give advice in a fiduciary capacity in connection with the acquisition or transfer of the Taxable Bonds by any Benefit Plan.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that any Benefit Plan fiduciary or other person considering whether to purchase Taxable Bonds on behalf of a Benefit Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Code to such investment and the availability of any exemption. In addition, persons responsible for considering the purchase of Taxable Bonds by a governmental plan, non-electing church plan or non-U.S. plan should consult with their counsel regarding the applicability of any Similar Law to such an investment.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series 2021 Bonds and certain other legal matters are subject to the approving opinions of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver opinions with respect to the Series 2021 Bonds at the time of issuance substantially in the forms 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 by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, Sacramento, California.

Legality for Investment in California

Under the provisions of the California Financial Code, the Series 2021 Bonds are legal investments for commercial banks in California to the extent that the Series 2021 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 Series 2021 Bonds are eligible securities for deposit of public monies in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series 2021 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 fiscal year 2020-21 (which is due no later than April 1, 2022) 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 – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES.” These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) of the Securities and Exchange Commission (the “SEC”).

[To be updated based on continuing disclosure report provided by the Underwriter.]

Isom Advisors, a Division of Urban Futures, Inc. currently serves as the District’s dissemination agent in connection with each of the District’s prior continuing disclosure undertakings pursuant to the Rule and will serve as dissemination agent in connection with the continuing disclosure undertaking to be entered into relating to the Series 2021 Bonds.

Litigation

No litigation is pending or threatened concerning or contesting the validity of the Series 2021 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 Series 2021 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 Series 2021 Bonds or District officials who will sign certifications relating to the Series 2021 Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter at the time of the original delivery of the Series 2021 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 Series 2021 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

Ratings

Moody’s Investors Service Inc. and S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, have assigned their respective ratings of “[____]” and “[____]” to the Series 2021 Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from the District, which are not included in this Official Statement). The ratings reflect only the views of the rating agencies furnishing the same, and any explanation of the significance of such ratings should be obtained only from the rating agencies providing the same. Such ratings are not a recommendation to buy, sell or hold the Series 2021 Bonds. There is no assurance that any ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2021 Bonds. Neither the Underwriter (defined below) nor the District has undertaken any responsibility after the offering of the Series 2021 Bonds to assure the maintenance of the ratings 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 Series 2021 Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series 2021 Bonds. Isom Advisors, a Division of Urban Futures, Inc., is acting as the District’s municipal advisor (the “Municipal Advisor”) with respect to the Series 2021 Bonds. Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, is acting as counsel to the Underwriter with respect to the Series 2021 Bonds. Payment of the fees and expenses of the District’s Municipal Advisor and counsel to the Underwriter are also contingent upon the sale and delivery of the Series 2021 Bonds. From time to time, Bond Counsel represents the Underwriter (defined below) on matters unrelated to the Series 2021 Bonds.

Underwriting

The New Money 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 _____, 2021 (the “New Money Purchase Agreement”), by and between the Underwriter and the District. The Underwriter has agreed to purchase the New Money Bonds at a price of \$_____ [(which represents the aggregate principal amount of the New Money Bonds, [plus/less] [net] original issue [premium/discount] of \$[_____], and less Underwriter’s discount in the amount of \$[_____])]. The New Money Purchase Agreement provides that the Underwriter will purchase all of the New Money Bonds, subject to certain terms and conditions set forth in the New Money Purchase Agreement, including the approval of certain legal matters by counsel.

The Refunding Bonds are being purchased for reoffering to the public by the Underwriter pursuant to the terms of a bond purchase agreement executed on _____, 2021 (the “Refunding 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, less Underwriter’s discount in the amount of \$_____). The Refunding Purchase Agreement provides that the Underwriter will purchase all of the Refunding Bonds, subject to certain terms and conditions set forth in the Refunding Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell the Series 2021 Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices set forth on the inside front cover pages of this Official Statement. The public 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 Series 2021 Bonds. Quotations from and summaries and explanations of the Series 2021 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 Series 2021 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

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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 Series 2021 Bonds is payable from the general fund of the District or from State revenues. The Series 2021 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 Series 2021 Bonds. See “SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2021 BONDS” in the front portion of this 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 seven elementary schools, three middle schools, two comprehensive high schools, one early college academy, one continuation high school and one adult education center. There is also one independent charter school, Gilroy Prep Academy/Navigator School (“Gilroy Prep Academy”), operating within the District. The District’s enrollment for fiscal year 2019-20 was approximately 11,135 students and is projected to be 10,853 students in fiscal year 2020-21, excluding enrollment at Gilroy Prep Academy. The District’s projected fiscal year 2020-21 general fund expenditures are expected to be approximately \$156.29 million based on the District’s first interim report for fiscal year 2020-21. Taxable property in the District has a fiscal year 2020-21 total assessed value of \$11.98 billion. As of December 2020, the District employed approximately 1,039 full-time equivalent (“FTE”) employees, consisting of approximately 575 FTE non-management certificated employees, approximately 40 FTE certificated management employees, approximately 20 FTE classified non-management employees and approximately 404 FTE classified management employees. The District operates under the jurisdiction of the Santa Clara County Superintendent of Schools.

The District is governed by a Board of Education (the “Board”) consisting of seven trustees, each elected by voters within the applicable trustee area 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.

The Board closed the Antonio Del Buono Elementary School in summer 2020 (following the conclusion of the 2019-20 school year) due to declining enrollment. Beginning with the 2020-21 school year, students from the Antonio Del Buono Elementary School are attending 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 July 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 then, including as the Superintendent of Lucia Mar Unified School District in San Luis Obispo County.

Board of Education

The Board of Education changed from an “at-large” election system to a “trustee area” election system beginning with the November 2020 election. Each December the Board elects a President and Vice President to serve one-year terms. Current members of the Board, together with their office, trustee area, and the date their term expires, are listed below.

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

Board of Education

Name	Office	Trustee Area	Term Expires
Mark W. Good	President	Area 2	December 2024
Linda Piceno	Vice President	Area 4	December 2022
Enrique Diaz	Member	Area 1	December 2022
Michelle Nelson	Member	Area 3	December 2022
Tuyen Fiack	Member	Area 7	December 2022
James E. Pace	Member	Area 5	December 2024
Melissa Nicholson Aguirre	Member	Area 6	December 2024

Superintendent and Assistant Superintendent, 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. Deborah A. Flores, Ph.D. has served as Superintendent of the District since July 2007. The Assistant Superintendent, Business Services reports directly to the Superintendent. The Assistant Superintendent, Business Services is responsible for management of the District’s finances and business operations. Álvaro Meza has served as Assistant Superintendent, Business Services since July 2013. Information concerning the Superintendent and the Assistant Superintendent, Business Services 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 13 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 Education 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. On December 2020, the Gilroy Chamber of Commerce named Dr. Flores the 2021 Spice of Life Woman of the Year.

Álvaro 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.

Cybersecurity

The District collects, processes, and distributes an enormous amount of private, protected and personal information on students, staff, parents, visitors, and contractors. As the custodian of such information, the District may face cybersecurity threats from time to time. Within the past five years, an incident occurred in which one District computer was infected with malware; the unit was quickly identified and isolated without compromising the network. The District maintains cybersecurity insurance coverage in the amount of \$1 million per occurrence to protect against any damage caused by a cybersecurity attack.

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 projects it will receive approximately 46.68% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), projected at approximately \$68.49 million in fiscal year 2020-21. 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 2020-21 State budget on June 29, 2020.

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 deferring apportionments of Proposition 98 funds from one fiscal year to the next, as the State is doing in fiscal years 2019-20 and 2020-21 (see – “*2020-21 State Budget*” below for further information); 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 Series 2021 Bonds, and the District takes no responsibility for informing owners of the Series 2021 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, 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. 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. 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.

2020-21 State Budget. The Governor signed the fiscal year 2020-21 State Budget (the “2020-21 State Budget”) on June 29, 2020. According to the State, the economic impact of the COVID-19 pandemic has resulted in a \$54.3 billion budget deficit, which the State is addressing through the following measures:

- **Reserves.** The 2020-21 State Budget draws down \$8.8 billion in reserves, including \$7.8 billion from the State's Rainy Day Fund (the “Rainy Day Fund” or the “State Rainy Day Fund”), \$450 million from the Safety Net Reserve, and all of the funds in the Public School System Stabilization Account (the “PSSSA” or the “Proposition 98 Rainy Day Fund”).
- **Trigger.** The 2020-21 State Budget includes \$11.1 billion in reductions and deferrals that will be restored if federal legislation providing for at least \$14 billion in federal funds is passed by the United States Congress and signed by the President, and such funds are received by October 15, 2020. If the State receives a lesser amount between \$2 billion and \$14 billion, the reductions and deferrals will be partially restored. The trigger includes \$6.6 billion in deferred spending on schools, approximately \$970 million in funding for the University of California and the California State University, \$2.8 billion for state employee compensation, \$150 million for courts, and funding

for child support administration, teacher training, moderate-income housing, and infrastructure to support infill housing. The trigger would also fund an additional \$250 million for county programs to backfill revenue losses. If the federal government does not provide funds in fiscal year 2020-21, the deferrals provided in the 2020-21 State Budget may create a larger budget shortfall in subsequent fiscal years. A larger budget shortfall in subsequent years may result in continuing deferrals until the State is able to fully fund its current year education obligations in a single budget year.

- Federal Funds. The 2020-21 State Budget relies on \$10.1 billion in federal funds that provide general fund relief, including \$8.1 billion already received. This includes the enhanced Federal Medical Assistance Percentage, a portion of the State's allocation from the federal Coronavirus Relief Fund and funds provided for childcare programs.
- Revenues. The 2020-21 State Budget temporarily suspends the use of net operating losses for medium and large businesses and temporarily limits to \$5 million the amount of business incentive credits a taxpayer can use in any given tax year. These short-term limitations will generate \$4.4 billion in new revenues in fiscal year 2020-21.
- Borrowing/Transfers/Deferrals. The 2020-21 State Budget relies on \$9.3 billion in special fund borrowing and transfers, as well as other deferrals for K-14 school districts.
- Cancelled Expansions, Updated Assumptions and Other Solutions. The 2020-21 State Budget includes \$10.6 billion of other solutions for addressing the budget deficit, such as cancelling multiple program expansions and anticipating increased government efficiencies, higher ongoing revenues, and lower health and human services caseload costs that previously estimated.

Because of such measures described above, the 2020-21 State Budget is a balanced budget for fiscal year 2020-21 that projects approximately \$137.7 billion in revenues, \$88.8 billion in non-Proposition 98 expenditures and \$45.1 billion in Proposition 98 expenditures. The 2020-21 State Budget sets aside \$2.6 billion in the Special Fund for Economic Uncertainties (the "SFEU"), and it includes total funding of \$98.8 billion (\$48.1 billion general fund and \$50.7 billion other funds) for all K-12 education programs. The 2020-21 State Budget estimates the Proposition 98 minimum guarantee at \$78.5 billion in fiscal year 2018-19, \$77.7 billion in fiscal year 2019-20, and \$70.9 billion in fiscal year 2020-21. The reduction in Proposition 98 funding will result in per pupil spending of \$10,654 in fiscal year 2020-21, a \$1,339 reduction from fiscal year 2019-20.

The 2020-21 State Budget offsets such reduction in Proposition 98 funding in several ways, including the following:

- Local Control Funding Formula Deferrals. As a result of the COVID-19 pandemic, \$1.9 billion in LCFF apportionments in fiscal year 2019-20 were deferred until fiscal year 2020-21, and the 2020-21 State Budget provides that apportionment deferrals in fiscal year 2020-21 will grow to \$11 billion. Such deferrals allow LCFF funding to remain at fiscal year 2019-20 levels in both fiscal years. The 2020-21 State Budget suspends the statutory LCFF cost-of-living adjustment in fiscal year 2020-21. The 2020-21 State Budget provides that \$5.8 billion of deferrals will be triggered off in fiscal year 2020-21 if sufficient federal funding is provided that can be used for such purpose.
- Learning Loss Mitigation. Additionally, the 2020-21 State Budget includes a one-time investment of \$5.3 billion (comprised of \$4.4 billion from the federal Coronavirus Relief Fund, \$589.9 million in Proposition 98 general fund resources, and \$355.2 from the federal Governor's Emergency Education Relief Fund) to local education agencies to address learning loss resulting from school

closures. To ensure that those local educational agencies serving students most affected by the COVID-19 pandemic receive additional funding, the 2020-21 State Budget will allocate \$2.9 billion of such funds based on the LCFF supplemental and concentration grant allocation, \$1.5 billion of such funds based on the number of students with exceptional needs, and \$979.8 million of such funds based on the total LCFF allocation.

- Supplemental Appropriations. In fiscal years 2019-20 and 2020-21, the Proposition 98 funding level drops below the target funding level by a total of approximately \$12.4 billion. To accelerate the recovery from such funding reduction, the 2020-21 State Budget provides supplemental appropriations above the required Proposition 98 funding level, beginning in fiscal year 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5% of general fund revenues, up to a total of \$12.4 billion.
- Revised CalPERS and CalSTRS Contributions. To provide immediate and long-term relief to school districts facing rising pension costs, the 2020-21 State Budget redirects \$2.3 billion appropriated in the 2019-20 State Budget to California State Teachers' Retirement System ("CalSTRS") and the California Public Employees' Retirement System ("CalPERS") for long-term unfunded liabilities to instead reduce employer contribution rates in fiscal years 2020-21 and 2021-22. Such reallocation will reduce the CalSTRS employer contribution rate from 18.41% to approximately 16.15% in fiscal year 2020-21 and from 17.9% to 16.02% in fiscal year 2021-22. The CalPERS Schools Pool employer contribution rate will be reduced from 22.67% to 20.7% in fiscal year 2020-21 and from 24.6% to 22.84% in fiscal year 2021-22.
- Federal Funds. In addition to the federal Coronavirus Relief Fund and Governor's Emergency Education Relief Fund allocations described above, the 2020-21 State Budget includes \$1.6 billion in federal Secondary School Emergency Relief funds. Of this amount, \$1.5 billion will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive and may be used for costs relating to the COVID-19 pandemic. Of the remaining \$164.7 million, \$112.2 million will be used to provide up to \$0.75 per meal for local educational agencies participating in certain school meal programs and serving meals between March 2020 and August 2020 due to school closures, \$45 million will be used for grants to local educational agencies to increase access to health, mental health, and social service supports for high-need students, \$6 million will be used to provide educator professional development for providing high quality distance learning, and \$1.5 million will be used for State Department of Education costs associated with the COVID-19 pandemic.
- Temporary Revenue Increases. As described above, the 2020-21 State Budget includes a temporary three-year suspension of net operating losses, and a limitation on business incentive tax credits to offset no more than \$5 million of tax liability per year. These temporary changes, along with other tax changes, will generate additional general fund revenues, approximately \$1.6 billion of which will benefit the Proposition 98 guarantee.
- Special Education. The 2020-21 State Budget provides for increased special education base rates of \$625 per pupil pursuant to a new funding formula. The 2020-21 State Budget also includes \$100 million to increase funding for students with low-incidence disabilities, \$15 million in federal Individuals with Disabilities Education Act ("IDEA") funds for the Golden State Teacher Scholarship Program to increase the special education teacher pipeline, \$8.6 million in IDEA funds to assist local educational agencies to develop regional alternative dispute resolution services and statewide mediation services, and \$1.1 million in IDEA funds to study the current special education governance and accountability structure.

- Average Daily Attendance and Distance Learning. The 2020-21 State Budget assumes that local educational agencies will provide in-classroom instruction during the 2020-21 school year, but recognizes that public health officials may require school closures. To ensure funding stability regardless of instructional model, the 2020-21 State Budget includes a hold-harmless provision for the purpose of calculating apportionments in fiscal year 2020-21, and it provides that average daily attendance will be based on the 2019-20 school year. The 2020-21 State Budget also includes requirements for distance learning services in the event of school closures.
- Employee Protections. The 2020-21 State Budget suspends layoffs of non-management certificated staff during fiscal year 2020-21 and classified staff who hold positions in nutrition, transportation, or custodial services during fiscal year 2020-21. The 2020-21 State Budget includes \$60 million Proposition 98 general fund resources to provide a match of State funds for participating classified employees to be paid during the summer recess period. The 2020-21 State Budget also states that it is the intent of the State Legislature that school districts, community college districts, joint powers authorities, and county offices of education retain all classified employees in fiscal year 2020-21.

The complete 2020-21 State Budget is available from the California Department of Finance website at 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.

Proposed 2021-22 State Budget. The Governor released his proposed State budget for fiscal year 2021-22 (the “Proposed 2021-22 State Budget”) on January 8, 2021. The Proposed 2021-22 State Budget sets forth a balanced budget for fiscal year 2021-22 with an economic outlook and revenue forecast that is much improved from the 2020-21 State Budget. The Governor cautions that as the State enters fiscal year 2021-22, the risks to such positive forecast remain higher than usual as the State’s health and economy are threatened by the highest infection rate since the start of the COVID-19 pandemic. With increasing distribution of vaccines, however, the Governor notes that the State is poised to begin an equitable and broad-based recovery.

The Proposed 2021-22 State Budget estimates that total resources available in fiscal year 2020-21 will total approximately \$168.10 billion (including a prior year balance of approximately \$5.36 billion) and total expenditures in fiscal year 2020-21 will total approximately \$155.90 billion. The Proposed 2021-22 State Budget anticipates the following fund balances for fiscal year 2020-21: \$3.18 billion in the State’s Reserve for Liquidation of Encumbrances (the “Encumbrances Reserve”), \$9.03 billion in the State’s SFEU, \$747.00 million in the Proposition 98 Rainy Day Fund, \$450.00 million in the State’s Safety Net Reserve, and \$12.54 billion in the State Rainy Day Fund.

The Proposed 2021-22 State Budget projects total resources available for fiscal year 2021-22 of approximately \$170.57 billion, inclusive of revenues and transfers of approximately \$158.37 billion and a prior year balance of approximately \$12.20 billion. The Proposed 2021-22 State Budget projects total expenditures of approximately \$164.52 billion, inclusive of non-Proposition 98 expenditures of approximately \$103.68 billion and Proposition 98 expenditures of approximately \$60.83 billion. The Proposed 2021-22 State Budget proposes to allocate approximately \$3.18 billion of the general fund’s projected fund balance to the Encumbrances Reserve and approximately \$2.88 billion of such fund balance to the SFEU. In addition, the Proposed 2021-22 State Budget includes deposits to the PSSSA and State Rainy Day Fund with estimated fund balances of approximately \$2.99 billion in the PSSSA and approximately \$15.57 billion in the State Rainy Day Fund in fiscal year 2021-22 while maintaining the State’s Safety Net Reserve fund balance of approximately \$450 million. The Proposed 2021-22 State Budget notes that such fund balances will be critical to the State’s financial resiliency as the Proposed 2021-

22 State Budget projects that expenditures will grow faster than revenues, with a structural deficit of approximately \$7.6 billion projected for fiscal year 2022-23 that is forecast to grow to over approximately \$11 billion by fiscal year 2024-25.

The Proposed 2021-22 State Budget currently projects that the State's appropriations limit (referred to as the "Gann Limit") will be exceeded for just the second time since its passage in 1979. The Gann Limit is currently projected to be exceeded by approximately \$102 million. As a result, any funds above the Gann Limit are constitutionally required to be allocated evenly between school districts and a tax refund.

In light the State's improved economic outlook and revenue forecast for fiscal year 2021-22, the Proposed 2021-22 State Budget reflects the highest-ever State funding level for K-14 education, including the following notable proposals relating to education:

- Proposition 98. The Proposed 2021-22 State Budget includes \$85.8 billion of Proposition 98 resources for K-12 schools and community colleges, which represents an increase of \$14.9 billion above the level funded in the 2020-21 State Budget and the highest-ever level of funding for K-14 schools. The Proposition 98 funding levels for fiscal year 2019-20 and 2020-21 increased from the 2020-21 State Budget amounts by \$1.9 billion and \$11.9 billion, respectively, due almost exclusively to increased State general fund revenues in such fiscal years. Total K-12 per-pupil expenditures from all sources are projected to be \$18,837 in fiscal year 2020-21 and \$18,000 in fiscal year 2021-22 (the decrease between the level of per-pupil expenditures in fiscal year 2020-21 and fiscal year 2021-22 is reflective of the significant allocation of one-time federal funds in fiscal year 2020-21). The Proposed 2021-22 State Budget includes \$12,648 of ongoing K-12 per-pupil expenditures of Proposition 98 resources, which represents an increase of \$1,994 over the level provided in the 2020-21 State Budget.
- Local Control Funding Formula. The 2020-21 State Budget suspended the cost-of-living adjustment for LCFF in fiscal year 2020-21. To remedy the prior fiscal year's suspension, the Proposed 2021-22 State Budget funds LCFF in fiscal year 2021-22 with both the fiscal year 2020-21 cost-of-living adjustment of 2.31 percent and the fiscal year 2021-22 cost-of-living adjustment of 1.5 percent, for a total combined cost-of-living adjustment of 3.84 percent in fiscal year 2021-22. By combining such cost-of-living adjustments in fiscal year 2021-22, the Proposed 2021-22 State Budget increases Proposition 98 general fund resources for LCFF by \$2 billion. Under the Proposed 2021-22 State Budget, total LCFF funding is approximately \$64.5 billion, and all local education agencies are funded at their full LCFF target level.
- No A.D.A. Hold Harmless Provision. Unlike the 2020-21 State Budget, the Proposed 2021-22 State Budget does not include a new A.D.A. hold harmless provision for fiscal year 2021-22. However, because of the existing A.D.A. hold harmless provision in the 2020-21 State Budget, local education agencies that experience enrollment declines in fiscal year 2021-22 will retain the ability to receive their LCFF apportionment based on the higher of their 2019-20 or 2020-21 A.D.A. pursuant to existing law.
- Local Property Tax Adjustments. The Proposed 2021-22 State Budget includes an increase of \$54.1 million of ongoing Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2020-21 as a result of decreased offsetting property tax revenues. However, the Proposed 2021-22 State Budget reflects a decrease of \$1.2 billion of ongoing Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2021-22 as a result of increased offsetting property taxes.

- In-Person Instruction Grants. The Proposed 2021-22 State Budget includes \$2 billion of one-time Proposition 98 general fund resources, available beginning in February 2021, to augment resources for schools to offer in-person instruction safely. This funding will be available on a per-pupil basis for all county schools, school districts, and certain charter schools that are open for in-person instruction by specified dates. Funds may be used for any purpose that supports in-person instruction, and school districts must complete a COVID-19 School Safety Plan and adopt and implement a COVID-19 surveillance testing plan for staff and students as a condition to receipt of such funds.
- Expanded Learning Time and Academic Interventions Grants. To address learning loss due to the COVID-19 pandemic, the Proposed 2021-22 State Budget proposes to allocate \$4.6 billion in one-time Proposition 98 general fund resources for early action by the State legislature. This funding will provide school districts with time to design targeted interventions that focus on students from low-income families, English language learners, youth in foster care, and homeless youth, including an extended school year or summer school.
- Federal COVID-19 Relief Funds. The Proposed 2021-22 State Budget assumes, based recent federal legislation (see “ – *Infectious Disease Outbreak*” below for more information on HR 133), that the school districts within the State could receive more than \$6 billion in total funding from the federal Elementary and Secondary Schools Emergency Relief Fund (of which 90 percent would go directly to Title I schools) and \$400 million in total funding from the federal Governor’s Emergency Education Relief Fund to assist schools in reopening and remaining open for in-person instruction during the COVID-19 pandemic.
- Proposition 98 Rainy Day Fund (Public School System Stabilization Account). The Proposed 2021-22 State Budget projects that a \$747 million deposit into the Proposition 98 Rainy Day Fund (PSSSA) will be required in fiscal year 2020-21, and a \$2.2 billion deposit will be required in fiscal year 2021-22. The balance of approximately \$3 billion in fiscal year 2021-22 triggers school district reserve caps beginning in fiscal year 2022-23.
- Deferrals. The 2020-21 State Budget included deferrals of LCFF apportionments in the amounts of \$1.9 billion in fiscal year 2019-20, growing to more than \$11 billion in fiscal year 2020-21. The Proposed 2021-22 State Budget pays off the full K-12 deferral of LCFF apportionments in fiscal year 2019-20 and pays off approximately \$7.3 billion of the K-12 deferral of LCFF apportionments in fiscal year 2020-21, leaving an ongoing K-12 deferral balance of \$3.7 billion in fiscal year 2021-22. The Proposed 2021-22 State Budget provides that the June 2022 apportionment will be delayed until July 2022, but that no other apportionments will be affected.
- Additional Funding for K-14 Education. The Proposed 2021-22 State Budget includes \$3.4 billion of non-Proposition 98 general fund resources for K-14 education. Such funding is in addition to the recent federal COVID-19 pandemic relief funding for school districts. See “ – *Infectious Disease Outbreak*” below for more information on HR 133.
- Supplemental Payments. The Proposed 2021-22 State Budget projects a decline of \$511 million of Proposition 98 funding in fiscal year 2019-20 and fiscal year 2020-21 – a vast improvement from the projected decline of \$12.4 billion in the 2020-21 State Budget. As a result, the Proposed 2021-22 State Budget proposes to remove the supplemental payments included in the 2020-21 State Budget. However, in recognition of the extraordinary needs of students and the public school system as a result of the COVID-19 pandemic, the Proposed 2021-22 State Budget includes a one-time \$2.3 billion supplementary payment to K-14 schools in fiscal year 2021-22.

- CalPERS/CalSTRS Contributions. The Proposed 2021-22 State Budget provides that CalSTRS will apply \$820 million in fiscal year 2021-22 to reduce the employer rate from 18.1 percent to approximately 15.92 percent, and that CalPERS will apply \$330 million in fiscal year 2021-22 to reduce the Schools Pool employer contribution rate from 24.9 percent to 23 percent.
- Investing in Educator Professional Development. The Proposed 2021-22 State Budget includes \$315.3 million in Proposition 98 general fund resources for educator professional development. This funding includes \$250 million of one-time Proposition 98 general fund resources for the Educator Effectiveness Block Grant to expedite professional development for teachers, administrators, and other in-person staff in high-need areas including accelerated learning, re-engaging students, restorative practices, and implicit bias training, and \$50 million in one-time Proposition 98 general fund resources to create statewide resources and provide targeted professional development on social-emotional learning and trauma-informed practices.
- Investing in the Teacher Pipeline. The Proposed 2021-22 State Budget includes \$225 million in one-time funding to improve the State’s teacher pipeline. This funding includes \$100 million in one-time non-Proposition 98 general fund resources for continued investment in the Golden State Teacher Grant Program which provides grants to students enrolled in teacher preparation programs who commit to working in high-need fields and at schools with high rates of under-prepared teachers, \$100 million in one-time Proposition 98 resources to expand the Teacher Residency Program which supports clinical teacher preparation programs dedicated to preparing and retaining teachers in high-need communities and subject areas, and \$25 million in one-time Proposition 98 resources to expand the Classified School Employees Credentialing Program which provides grants to local educational agencies to recruit non-certificated school employees to become certificated classroom teachers.
- Special Education. The Proposed 2021-22 State Budget includes \$300 million in ongoing Proposition 98 general fund resources for the Special Education Early Intervention Grant to increase the availability of evidence-based services for infants, toddlers, and preschoolers. The Proposed 2021-22 State Budget also includes \$5 million in one-time Proposition 98 general fund resources to establish professional learning networks to increase local educational agency capacity to access federal Medi-Cal funds.
- Community Schools. The Proposed 2021-22 State Budget includes \$264.9 million in one-time Proposition 98 general fund resources to enable local educational agencies to expand existing networks of community schools, establish new community schools, and coordinate a wide range of services to these schools with priority given to schools in high-poverty communities.
- Student Mental Health. The Proposed 2021-22 State Budget includes \$400 million in one-time funding, consisting of a mix of one-time federal and State general fund resources available over multiple years, for the Department of Health Care Services to implement an incentive program through Medi-Cal Managed Care Plans administered by county behavioral health departments and schools. Additionally, the Proposed 2021-22 State Budget also includes \$25 million in one-time Mental Health Services Fund resources, available over multiple years, to expand the Mental Health Student Services Act Partnership Grant Program, which funds partnerships between county behavioral health departments and schools. Finally, the Proposed 2021-22 State Budget includes \$25 million in ongoing Proposition 98 general fund resources to fund innovative partnerships with county behavioral health to support student mental health services.
- Early Learning. The Proposed 2021-22 State Budget includes \$250 million in one-time Proposition 98 general fund resources, available over multiple years, to provide grants to local educational

agencies that offer early access to transitional kindergarten (“TK”) to help them cover up-front costs associated with expanding their TK programs. Additionally, to increase the number of highly qualified teachers available to serve TK students, the Proposed 2021-22 State Budget includes an increase of \$50 million of one-time Proposition 98 general fund resources to support the preparation of TK teachers and provide both TK and kindergarten teachers with training in providing instruction in inclusive classrooms, support for English language learners, social-emotional learning, trauma-informed practices, restorative practices, and mitigating implicit biases. The Proposed 2021-22 State Budget also includes \$200 million in one-time general fund resources for school districts to construct and retrofit existing facilities to support TK and full-day kindergarten programs.

The complete Proposed 2021-22 State Budget is available from the California Department of Finance website at 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.

LAO Overview of Proposed 2021-22 State Budget. The Legislative Analyst’s Office (“LAO”), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the Proposed 2021-22 State Budget entitled “The 2021-22 Budget: Overview of the Governor’s Budget” on January 10, 2021 (the “2021-22 Proposed Budget Overview”). In the 2021-22 Proposed Budget Overview, the LAO summarizes the condition of the Proposed 2021-22 State Budget and notes the State’s improved fiscal picture amidst the ongoing COVID-19 pandemic. The LAO also highlights key features of the Proposed 2021-22 State Budget, which include a wide array of one-time programmatic spending and efforts to alleviate the impacts of the COVID-19 pandemic.

The LAO notes that, under the Proposed 2021-22 State Budget, the State would end fiscal year 2021-22 with approximately \$18.91 billion in total reserves, representing an increase of \$7.50 billion from the budgeted reserve level of \$11.4 billion in fiscal year 2020-21 set forth in the 2020-21 State Budget. The increase in total reserves is the result of an estimated \$3 billion required deposit into the State Rainy Day Fund, a \$4.20 billion true-up deposit into the State Rainy Day Fund for fiscal years 2019-20 and 2020-21, and an increase in the discretionary SFEU of \$267 million. The LAO summarizes that at the end of fiscal year 2021-22, the State Rainy Day Fund would reach a balance of approximately \$15.57 billion, the SFEU would reach a balance of approximately \$2.88 billion, and the Safety Net Reserve would contain a balance of approximately \$450 million. Despite the overall increase in reserves, the LAO anticipates that the State will face large multiyear operating deficits if the State legislature adopts the Proposed 2021-22 State Budget. In particular, the LAO warns that the State would experience an operating deficit of \$7.60 billion in fiscal year 2022-23 that would grow to \$11.30 billion in fiscal year 2024-25. The LAO recommends that the State legislature begin to consider the ways in which the State might address the multiyear structural deficit, including, for example, by considering the use of discretionary spending to make supplemental pension payments.

The LAO estimates that the Governor had a \$15.50 billion surplus to allocate in the Proposed 2021-22 State Budget, and that the Governor allocated approximately \$8.10 billion to one-time or temporary spending, approximately \$2.90 billion to the SFEU, approximately \$2.50 billion to revenue reductions, approximately \$1.30 billion to ongoing spending (the costs of which the LAO estimates will grow slightly over time to \$1.40 billion by fiscal year 2024-25), and approximately \$700 million to repay State debts and liabilities. The LAO comments that the Proposed 2021-22 State Budget provides a reasonable mix of one-time and ongoing spending. The LAO observes that most one-time spending is allocated to housing and homelessness, as well as natural resources and the environment, while most ongoing spending is allocated to health and behavioral health. The LAO notes that of the new spending specifically attributable to fiscal year 2021-22, the Proposed 2021-22 State Budget allocates \$2.60 billion for ongoing commitments and

\$2.90 billion for one-time activities. Combined with a \$2.40 billion one-time deposit into the PSSSA, this one-time spending creates a budget cushion of \$5.30 billion that helps protect ongoing programs from volatility in the Proposition 98 minimum guarantee. The LAO remarks that having a large one-time cushion is especially important in fiscal year 2021-22 given the continued and significant economic uncertainty caused by the ongoing COVID-19 pandemic.

The LAO observes that the 2020-21 State Budget addressed a \$54 billion budget shortfall, which arose as a result of significant declines in expected revenues. Although such revenue estimates were reasonable at the time, the LAO notes that revenues have nearly returned to pre-COVID-19 pandemic levels while State costs have not risen as dramatically as expected. The LAO also calls attention to the fact that some of the State's actions in response to the COVID-19 pandemic (including making withdrawals from reserves and shifting costs) were larger than necessary and that the Proposed 2021-22 State Budget uses very little discretionary spending to restore budget resilience. While the LAO agrees that the State should remain focused on its response to the COVID-19 pandemic, it suggests that taking actions now to restore budget resilience is nonetheless important both to address the State's multiyear budget problem and to help the State weather the next unexpected downturn.

The LAO remarks that the Proposed 2021-22 State Budget offers the State legislature an opportunity to consider how the State can best use its resources to help it respond to and recover from the COVID-19 pandemic. In December 2020, the federal government passed a fifth round of pandemic relief, providing additional funding to most taxpayers, people receiving unemployment insurance benefits, renters, businesses, and schools. The Proposed 2021-22 State Budget includes a number of significant proposals that address overlapping needs relating to the COVID-19 pandemic. The LAO observes that while this overlap is understandable given the timing of the release of the Proposed 2021-22 State Budget, the State legislature should examine the Proposed 2021-22 State Budget in light of the new federal relief. Specifically, the LAO recommends that the State legislature determine how to best target State funds to those not already benefiting from the federal assistance, and strive to complement, rather than duplicate, the federal stimulus.

The Proposed 2021-22 State Budget includes \$5 billion in actions that the Governor proposes the State legislature adopt in January and February 2021 ("Immediate Action Proposals"). The Governor's Immediate Action Proposals include \$2 billion for in-person instruction grants to incentivize schools to offer in-person instruction for younger students and students with high needs, potentially as soon as February 16, 2021. The LAO is concerned this proposal sets unfeasible timelines and could discourage school district participation. Although it believes some additional State funding should be directed toward academic support and reopening schools, the LAO recommends allocating a larger share of one-time funds to paying down deferrals or mitigating future cost increases related to pensions. The Governor's Immediate Action Proposals also include providing \$2.40 billion in tax refunds to low-income taxpayers, which the LAO believes could be more narrowly tailored to assist taxpayers using an Individual Taxpayer Identification Number; providing \$550 million in small business grants, which the LAO agrees is worth considering given that the recent federal business assistance does not target businesses most heavily-impacted by the COVID-19 pandemic; and waiving fees for individuals and businesses directly affected by the State's stay-at-home orders, which the LAO assesses as reasonable.

The Proposed 2021-22 State Budget also includes \$7.80 billion in actions that the Governor proposes the State legislature adopt in Spring 2021 ("Early Action Proposals"). The Governor's Early Action Proposals include additional academic support for disadvantaged students, emergency financial aid for community college students, and funding for various State housing and housing-related infrastructure programs. The LAO recommends that the State legislature evaluate each Early Action Proposal separately and offers a framework for legislators to conduct such evaluations. Ultimately, the LAO recognizes that making decisions with the benefit of knowing how COVID-19 vaccine distribution proceeds, how the State

economy responds, how State revenues perform in the spring, and whether the federal government distributes additional funds to states will be very valuable for evaluating how to allocate the State's limited resources.

The 2021-22 Proposed Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2021-22 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Proposed 2021-22 State Budget. In May, the Governor will revise the Proposed 2021-22 State Budget based on updated information available at such time. Such revision in May 2021 may also differ substantially from the Proposed 2021-22 State Budget. The final fiscal year 2021-22 State budget may be affected by national and State economic conditions and other factors which the District cannot predict, including the continued and evolving effects of the COVID-19 pandemic on State revenues that may in turn impact the educational funding that the District receives from the State. Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2021-22 State budget from the Proposed 2021-22 State Budget. The District cannot predict the impact that the final fiscal year 2021-22 State budget, or subsequent budgets, will have on its finances and operations.

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, including but not limited to the COVID-19 pandemic. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal years 2020-21 and 2021-22 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 Series 2021 Bonds are payable from *ad valorem* property taxes, the State budget is not expected to have an impact on the payment of the Series 2021 Bonds.

School District Reserves. As described above, the 2020-21 State Budget projected that the State would need to access its reserves to mitigate the budget shortfall in fiscal year 2020-21, including drawing down all of the funds in the Public School System Stabilization Account. See “– 2020-21 State Budget.” While the Proposed 2021-22 State Budget projects an improved economic outlook for the State that may even result in deposits into the Public School System Stabilization Account as opposed to drawdowns (see “– Proposed 2021-22 State Budget”), school districts may still need to access their local reserves in light of some of the unpredictability in State and federal funding. 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. At the time of preparation of the District's first interim report for fiscal year 2020-21, the District projects it will meet the 3% statutory reserve requirement in fiscal years 2020-21 through 2022-23. Based on the District's first interim report for fiscal year 2020-21, the District projects it may need to access its reserves in fiscal years 2020-21 through 2022-23 to meet its obligations.

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 a 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 2020-21, 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. The 2020-21 State Budget suspends the statutory cost-of-living adjustment in fiscal year 2020-21. For more information, see “–2020-21 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.

Typically, 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.

In response to the COVID-19 pandemic and the unique conditions under which many school districts are operating, Senate Bill 98, a budget trailer bill adopted in connection with the 2020-21 State Budget, revises certain annual LCAP requirements, removes the requirement for a traditional LCAP for the 2020-21 school year and replaces such requirement with what is referred to as a Learning Continuity and Attendance Plan (the “Learning Continuity and Attendance Plan”). The Learning Continuity and Attendance Plan seeks to address funding stability for schools while providing information at the LEA level describing how student learning continuity will be addressed during the COVID-19 pandemic in the 2020-21 school year. The Learning Continuity and Attendance Plan is intended to balance the needs of all stakeholders, including educators, parents, students, and community members, while streamlining meaningful stakeholder engagement. The Learning Continuity and Attendance Plan memorializes the planning process already underway for the 2020-21 school year, and includes plans for the following: (i) addressing gaps in learning; (ii) conducting meaningful stakeholder engagement; (iii) maintaining transparency; (iv) addressing the needs of unduplicated pupils, students with unique needs, and students experiencing homelessness; (v) providing access to necessary devices and connectivity for distance learning; (vi) providing resources and support to address student and staff mental health and social emotional well-being; and, (vii) continuing to provide school meals for students. Senate Bill 98 also requires school districts to approve a Parent Budget Overview, which was formerly an aspect of the prior LCAP reporting requirements. Accordingly, the Board adopted a Learning Continuity and Attendance Plan on September 17, 2020 and a Parent Budget Overview on December 17, 2020 and submitted such reports to the Santa Clara County Office of Education (“SCCOE”).

Attendance and LCFF. The following table sets forth the District’s actual 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 2015-16 through 2019-20, respectively, and the District’s projected A.D.A., enrollment (including percentage of students are EL/LI Students), and targeted Base Grant per unit of A.D.A. for fiscal year 2020-21. 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 2015-16 through 2020-21

Fiscal Year		A.D.A./Base Grant				Enrollment ⁽¹⁰⁾		
		TK-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment	Unduplicated Percentage of EL/LI Students
2015-16	A.D.A. ⁽¹⁾ :	3,172.87	2,436.74	1,699.43	3,593.75	10,902.79	11,435	59.17%
	Targeted Base Grant ⁽²⁾⁽³⁾ :	\$7,083	\$7,189	\$7,403	\$8,578	--	--	--
2016-17	A.D.A. ⁽¹⁾ :	3,136.77	2,511.27	1,660.60	3,624.63	10,933.27	11,483	59.33%
	Targeted Base Grant ⁽²⁾⁽⁴⁾ :	\$7,083	\$7,189	\$7,403	\$8,578	--	--	--
2017-18	A.D.A. ⁽¹⁾ :	3,117.01	2,498.65	1,661.69	3,622.87	10,900.22	11,290	59.73%
	Targeted Base Grant ⁽²⁾⁽⁵⁾ :	\$7,083	\$7,189	\$7,403	\$8,578	--	--	--
2018-19	A.D.A. ⁽¹⁾ :	3,033.85	2,509.62	1,545.80	3,583.12	10,672.39	11,118	59.37%
	Targeted Base Grant ⁽²⁾⁽⁶⁾ :	\$7,459	\$7,571	\$7,796	\$9,034	--	--	--
2019-20	A.D.A. ⁽¹⁾ :	3,025	2,503.56	1,537.24	3,549.32	10,615.12	11,135	58.30%
	Targeted Base Grant ⁽²⁾⁽⁷⁾ :	\$7,702	\$7,818	\$8,050	\$9,329	--	--	--
2020-21 ⁽⁸⁾	A.D.A. ⁽⁸⁾ :	3,025	2,503.56	1,537.24	3,549.32	10,615.12	10,853	57.00%
	Targeted Base Grant ⁽²⁾⁽⁷⁾ :	\$7,702	\$7,818	\$8,050	\$9,329	--	--	--

⁽¹⁾ 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.

⁽²⁾ 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 LCFE. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFE was fully implemented as of fiscal year 2018-19, two years ahead of its anticipated implementation.

⁽³⁾ 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.

⁽⁴⁾ 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.

⁽⁵⁾ 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.

⁽⁶⁾ 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.

⁽⁷⁾ 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.

⁽⁸⁾ Figures are estimates.

⁽⁹⁾ Targeted fiscal year 2020-21 Base Grant amount reflects a 0% cost-of-living adjustment from targeted fiscal year 2019-20 Base Grant amounts.

⁽¹⁰⁾ Reflects enrollment as of October report submitted to the California Longitudinal Pupil Achievement Data System. A school district’s percentage of unduplicated EL/LI Students is 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 \$114.74 million in aggregate revenues reported under LCFE sources in fiscal year 2019-20 and has projected to receive approximately \$111.65 in aggregate revenues reported under LCFE sources in fiscal year 2020-21 (or approximately 76.09% of its general fund revenues in fiscal year 2020-21). Such amount includes supplemental grants and concentrated grants for targeted groups projected at approximately \$10.72 million and \$1.47 million, respectively, in fiscal year 2020-21.

Infectious Disease Outbreak. In general, the outbreak of a highly contagious disease or epidemic disease could harm the District’s financial results or result in a temporary shutdown of the District’s facilities. As discussed above, school districts in California are funded based on the LCFE, which allocates a base grant per unit of average daily attendance with additional supplemental grants based on certain factors. See “- Allocation of State Funding to School District; Local Control Funding Formula.” Thus, a

temporary shutdown of a school or an entire school district would reduce the average daily attendance and could impact the funding a school district receives unless the State legislature or California Department of Education takes action to exclude such days from the calculations for funding purposes. Further, any impact on the State's tax and other revenue receipts as a result of a highly contagious or epidemic disease may in turn impact other educational funding that the District receives from the State. See "*Future Budgets and Budgetary Actions*." In addition, the District may incur increased operational costs to conduct distance learning or to clean, sanitize and maintain its facilities either before or after an outbreak of an infectious disease.

COVID-19 Background. The outbreak of the respiratory disease caused by COVID-19 has been declared a pandemic by the World Health Organization, a national emergency by President Trump and a state of emergency by the Governor of the State.

Federal Response. On March 22, 2020, President Trump approved the Major Disaster Declaration for the State of California's COVID-19 pandemic, authorizing federal emergency aid related to COVID-19. Local educational agencies may submit a request for public assistance through the California Office of Emergency Services for reimbursement of certain costs incurred as a result of COVID-19. The District has not submitted a request for public assistance.

On March 27, 2020, the U.S. House of Representatives approved and President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The CARES Act provides \$30 billion to education, specifically \$3 billion allocated to state governors to be used at their discretion to address the emergency, \$13.5 billion for K-12 education, and \$14.25 billion for postsecondary institutions. School districts will be able to use their share of the \$13.5 billion K-12 education allocation under the CARES Act, which will be based on the proportion of Title I funding received for the most recent fiscal year, for purposes authorized by federal law and other specified uses.

The District expects to receive approximately \$9.8 million under the CARES Act, which includes approximately \$1.5 million from the Elementary and Secondary Schools Emergency Relief Fund provided directly from the federal government to the District, approximately \$6.6 million from the Coronavirus Relief Fund for learning loss mitigation provided from CARES Act funding administered through the State, approximately \$667,000 from the Governor's Emergency Education Relief Fund for learning loss mitigation provided from CARES Act funding administered through the State, and approximately \$909,000 from the State's general fund for learning loss mitigation provided from CARES Act funding administered through the State. The District has received approximately \$9 million under the CARES Act in September 2020. [The District anticipates receiving the remainder of the CARES Act funding in January 2021.] ***[Note: Follow up with District in January to confirm receipt of funds and revise accordingly.]***

On December 28, 2020, the United States Congress approved and President Trump signed into law the Consolidated Appropriations Act, 2021 ("HR 133"), which includes a \$900 billion COVID-19 relief package. HR 133 provides \$81.9 billion to education, specifically \$4.1 billion allocated to state governors to be used at their discretion to address the emergency, of which \$2.75 billion is reserved for private K-12 education, \$54.3 billion for K-12 education, \$22.7 billion for postsecondary institutions, and \$819 million for outlying areas and Bureau of Indian Affairs schools. School districts will be able to use their share of the \$54.3 billion K-12 education allocation under HR 133, which will be based on the proportion of Title I funding received for the most recent fiscal year, for purposes authorized by federal law and other specified uses.

State Legislation Relating to School Districts. On March 17, 2020, the Governor signed Senate Bill 117 ("SB 117") as urgency legislation effective immediately. For purposes of school district funding for fiscal year 2019-20, SB 117 limits the average daily attendance reported to the California Department

of Education to include the full school months from July 1, 2019, to February 29, 2020. This condensed ADA period applies to school districts that comply with Executive Order N-26-20, which provides that school districts that initiate a school closure to address COVID-19 will continue to receive State funding to support certain enumerated school functions during the period of closure. SB 117 further states the intent of the State Legislature that a school district's employees and contractors are paid during the period of a school closure due to COVID-19. SB 117 also waives instructional time penalties that would otherwise accrue, as long as the school district superintendent, county superintendent or charter school administrator certify that the closure due to COVID-19 caused the school district to fall below applicable instructional time requirements. SB 117 also includes \$100 million in additional funding to school districts for certain costs incurred as a result of COVID-19. The District received \$185,792 from such additional State funding in fiscal year 2019-20.

On December 30, 2020, the Governor released his Safe Schools for All Plan ("Safe Schools Plan"), a \$2 billion incentive grant program which provides additional funding and resources to school districts returning to in-person education, with a priority for students who are younger (TK-2) and most disproportionately impacted by the COVID-19 pandemic. Qualifying school districts must be located in counties with a COVID-19 transmission rate below 28 per 100,000 residents and must submit their COVID-19 safety plan, which is approved by their school employee unions and meets the new Cal/OSHA regulations, to their county office of education. The Safe Schools Plan provides participating school districts with a one-time grant of \$450 per student, with an additional amount of up to \$250 per student based on the number of low-income students, English learners and foster youth. Further, the Safe Schools Plan focuses on implementing safety and mitigation measures such as frequent testing for all school students and staff, the distribution and enforcement of personal protective equipment for all students and staff in school, improved contact tracing, and prioritized vaccinations for school staff. Additionally, the Safe Schools Plan provides oversight and accountability by assisting school districts to develop and implement their COVID-19 safety plans and responding to reports and concerns by school staff and parents. The Safe Schools Plan awaits approval by the State Legislature and is set to begin on February 15, 2021.

District Response. As a result of the outbreak of COVID-19, the District closed its schools for in-person instruction in March 2020 for the remainder of the 2019-20 school year and implemented a distance learning model. On August 12, 2020, the District started the 2020-21 school year using the distance learning model, and the District continues to utilize the distance learning model. The District opened four Distance Learning Centers in October 2020 and added a fifth site in November 2020. The purpose of these Learning Centers is to support students who live in areas in which District provided hotspots do not obtain sufficient reception to support distance learning by providing internet access so that students can access the zoom platform for distance learning. Approximately 200 students are attending Distance Learning Centers.

In fiscal year 2019-20, the District recorded \$935,102 in COVID-19 related expenditures, largely resulting from increased expenditures for personal protective equipment, support for food service staff, and extra custodial hours for disinfecting and deep cleaning. In fiscal year 2020-21, the District is projecting approximately \$7.80 million for additional COVID-19 related expenditures to support distance learning (by purchasing 6,000 chromebooks and 1,300 hotspots), purchase additional cleaning and disinfect supplies, personal protective equipment, and signage for complying with social distancing guidelines. The District has been allocated approximately \$9.8 million in one-time funds under the CARES Act and \$185,792 in one-time funds under SB 117 to mitigate the impact of COVID-19 during fiscal years 2019-20 and 2020-21, which the District currently expects will contribute greatly, but will not fully cover the increased expenditures relating to COVID-19

While the CARES Act, HR 133, and SB 117 have provided and will continue to provide some immediate relief to school districts, including the District, and the Safe Schools Plan may provide additional relief, the short-term and long-term impacts of the COVID-19 outbreak are unknown as the situation is

rapidly evolving. The District cannot predict whether similar legislation would be enacted in the event the outbreak of COVID-19 continues or a similar or other outbreak of a highly contagious disease or epidemic disease were to occur in the future.

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 a 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 are projected to account for approximately 50.62% of the District's aggregate revenues reported under LCFF sources and are projected to be approximately \$56.52 million, or 38.52% of total general fund revenues in fiscal year 2020-21.

For information about the property taxation system in California and the District's property tax base, see "– 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 SERIES 2021 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 LCFF districts, such as the District, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

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

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 11.28% (or approximately \$16.56 million) of the District's general fund projected revenues for fiscal year 2020-21.

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 9.10% (or approximately \$13.36 million) of the District's general fund projected revenues for fiscal year 2020-21.

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 projects to receive approximately \$2.10 million in State lottery revenue for fiscal year 2020-21.

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 3.52% (or approximately \$5.17 million) of the District's general fund projected revenues for fiscal year 2020-21.

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 2019-20 was 537 students and is projected to be approximately 516 students in fiscal year 2020-21. The District's audited financial statements for fiscal year 2019-20, 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 Statements

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, 2020, which are included as Appendix B.

Independently audited financial statements 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. Typically, school districts in the State are required to file their audited financial statements for the preceding fiscal year with the State Controller's Office, the State Superintendent of Public Instruction, and the county superintendent of schools by December 15 of each year. In response to the COVID-19 pandemic and the challenges it presents for school district operations, Senate Bill 98 (Chapter 24, enacted on June 29, 2020, as an urgency bill) provides, among other things, that a school district's audited financial statements for fiscal year 2019-20 are not due until March 31, 2021.

The following tables contain data abstracted from financial statements prepared by the District's independent auditor, James Marta & Company LLP, Certified Public Accountants, Sacramento, California for fiscal years 2015-16 through 2019-20.

James Marta & Company LLP has 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 table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for fiscal years 2015-16 through 2019-20.

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2015-16 through 2019-20

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
REVENUES					
LCFF Sources	\$94,762,947	\$102,732,634	\$104,363,166	\$110,001,780	\$114,739,891
Federal revenue	6,848,493	6,537,413	6,670,896	6,939,127	7,303,118
Other state revenues	15,086,496	12,246,189	11,532,820	17,920,316	13,060,268
Other local revenues	3,543,846	2,813,216	2,378,504	2,151,969	1,732,689
Total revenues	120,241,782	124,329,452	124,945,386	137,013,192	136,835,966
EXPENDITURES					
Certificated salaries	51,179,423	52,616,887	53,579,966	54,124,609	53,144,959
Classified salaries	16,660,800	17,697,290	18,464,661	19,017,957	18,895,680
Employee benefits	20,274,515	24,520,886	26,039,433	33,215,578	31,794,469
Books and supplies	4,388,955	6,551,093	7,239,594	5,803,773	4,456,210
Services and other operating expenditures	13,093,569	15,535,833	17,893,854	17,547,871	15,472,555
Capital outlay	1,483,298	1,263,884	697,119	456,411	238,337
Other outgo	2,194,903	2,613,495	3,145,435	3,321,881	3,398,274
Debt service expenditures	42,235	57,870	55,806	57,443	39,135
Total Expenditures	109,317,698	120,857,238	127,115,868	133,545,523	127,439,619
Excess of revenues over expenditures	10,924,084	3,472,214	(2,170,482)	3,467,669	9,396,347
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	(131,042)	(203,429)	-	-	-
Other sources	-	-	-	-	-
Other uses	-	-	-	-	-
Other financing sources (uses)	(131,042)	(203,429)	-	-	-
Net change in fund balances	10,793,042	3,268,785	(2,170,482)	3,467,669	9,396,347
Fund balances, July 1	10,585,990	21,379,032	24,647,817	22,477,335	25,945,004
Fund balances, June 30	\$21,379,032	\$24,647,817	\$22,477,335	\$25,945,004	\$35,341,351

Source: Gilroy Unified School District Audited Financial Statements for fiscal years 2015-16 through 2019-20.

The following table sets forth the general fund balance sheet of the District for fiscal years 2015-16 through 2019-20.

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2015-16 through 2019-20

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20
ASSETS					
Cash and cash equivalents	\$19,528,854	\$24,460,235	\$25,316,070	\$25,643,787	\$26,850,810
Accounts receivable	6,412,072	3,700,632	2,987,449	5,331,860	10,678,286
Stores	74,170	65,966	73,817	-	-
Other assets	-	-	-	-	-
Prepaid expenses	895	6,850	3,335	-	-
Due from other funds	662,906	892,220	616,703	624,000	764,091
Total assets	<u>\$26,678,897</u>	<u>\$29,125,903</u>	<u>\$28,997,374</u>	<u>\$31,599,647</u>	<u>\$38,293,187</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$4,271,030	\$3,018,015	\$5,204,166	\$4,862,633	\$2,087,752
Due to other funds	183,703	203,930	-	56,402	-
Unearned revenue	845,132	1,256,141	1,315,873	735,608	864,084
Total liabilities	<u>5,299,865</u>	<u>4,478,086</u>	<u>6,520,039</u>	<u>5,654,643</u>	<u>2,951,836</u>
Fund balances					
Nonspendable	100,065	122,816	127,152	50,000	50,000
Restricted	3,210,815	3,814,321	3,135,458	3,542,880	4,246,032
Committed	-	-	-	-	-
Assigned	4,828,364	5,964,742	5,679,206	5,749,280	7,131,121
Unassigned	13,239,788	14,745,938	13,535,519	16,602,844	23,914,198
Total fund balances	<u>21,379,032</u>	<u>24,647,817</u>	<u>22,477,335</u>	<u>25,945,004</u>	<u>35,341,351</u>
Total liabilities and fund balances	<u>\$26,678,897</u>	<u>\$29,125,903</u>	<u>\$28,997,374</u>	<u>\$31,599,647</u>	<u>\$38,293,187</u>

Source: Gilroy Unified School District Audited Financial Statements for fiscal years 2015-16 through 2019-20.

District Budget Process and County Review

Budget Process. 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.

Interim Reporting. 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 State 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 past five years, the District has not received a qualified or negative certification for an interim financial report.

County and State Response to School Districts Under Financial Distress. 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.

District's Fiscal Year 2020-21 Budget and First Interim Report. The District's original adopted budget for fiscal year 2020-21, which is included in the table below and described throughout this Appendix A, reflects the assumptions contained in the Governor's May revision to the proposed fiscal year 2020-21 State budget, which were significantly revised in the 2020-21 State Budget. After analyzing the revised assumptions included in the 2020-21 State Budget, District officials presented a revised fiscal year 2020-21 budget, which included the suspension of the COLA, increased LCFF funding, additional one-time CARES Act revenues to assist with the impact of the COVID-19 pandemic, and the deferral of State apportionments.

Given the rapidly evolving nature of the COVID-19 pandemic and the uncertainty of additional federal funding and its impact on the 2020-21 State Budget, even with the updates summarized above, the District's budget for fiscal year 2020-21 is subject to change throughout the current fiscal year as additional information becomes available.

The District also continues to revise its projections of revenues, expenditures, and ending fund balances as more financial data becomes available throughout the year. Accordingly, the District's first interim projections for fiscal year 2020-21 reflect actual financial data for the period ending October 31, 2020 and projections for the remainder of fiscal year 2020-21 based on such data. The District's first interim projections for fiscal year 2020-21, which were adopted by the Board on December 17, 2020, are also included in the table below and described throughout this Appendix A.

The table on the following page sets forth the District's adopted general fund budgets for fiscal years 2018-19 through 2020-21, unaudited actuals for fiscal years 2018-19 and 2019-20, and first interim report for fiscal year 2020-21.

GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
General Fund Budgets for Fiscal Years 2018-19 through 2020-21,
Unaudited Actuals for Fiscal Years 2018-19 and 2019-20
and First Interim Report for Fiscal Year 2020-21

	2018-19 Original Adopted Budget	2018-19 Unaudited Actuals ⁽¹⁾	2019-20 Original Adopted Budget	2019-20 Unaudited Actuals ⁽¹⁾	2020-21 Original Adopted Budget	2020-21 First Interim Report ⁽²⁾⁽³⁾
REVENUES						
LCFF Sources	\$108,423,647.00	\$110,001,781.52	\$111,078,668.00	\$114,739,890.19	\$103,303,843.00	\$111,654,909.00
Federal Revenue	6,207,026.76	6,939,127.42	6,756,951.57	7,303,119.56	8,371,707.36	16,557,093.11
Other State Revenue	11,916,673.69	17,920,316.12	9,620,840.19	13,060,268.74	10,254,276.97	13,359,715.01
Other Local Revenue	1,484,455.01	2,151,960.92	1,490,321.30	1,732,684.20	3,101,896.58	5,167,561.56
TOTAL REVENUES	<u>128,031,802.46</u>	<u>137,013,185.98</u>	<u>128,946,781.06</u>	<u>136,835,962.69</u>	<u>125,031,723.91</u>	<u>146,739,278.68</u>
EXPENDITURES						
Certificated Salaries	54,152,546.43	54,124,609.51	54,664,067.57	53,144,957.12	55,234,544.88	56,436,454.24
Classified Salaries	19,035,087.31	19,017,957.72	19,475,733.32	18,895,679.75	19,979,001.77	20,590,397.36
Employee Benefits	29,773,927.56	33,215,577.46	31,022,132.72	31,794,466.64	32,496,779.05	32,148,530.84
Books and Supplies	5,553,338.15	5,803,773.05	5,482,292.66	4,456,211.43	4,383,032.42	19,481,002.10
Services, Other Operating Expenses	13,216,604.79	17,547,870.02	15,594,885.48	15,472,555.19	14,359,976.51	22,246,424.81
Capital Outlay	414,752.35	456,410.82	632,486.98	238,336.88	352,325.33	1,375,098.45
Other Outgo (excluding Direct Support/Indirect Costs)	3,843,244.88	3,705,660.63	3,961,875.18	3,764,028.19	4,428,674.71	4,242,383.95
Transfers of Direct Support/Indirect Costs	(221,729.00)	(326,337.23)	(193,570.67)	(326,623.39)	(231,232.05)	(233,823.05)
TOTAL EXPENDITURES	<u>125,767,772.47</u>	<u>133,545,521.98</u>	<u>130,639,903.24</u>	<u>127,439,611.81</u>	<u>131,003,102.62</u>	<u>156,286,468.70</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,264,029.99</u>	<u>3,467,664.00</u>	<u>(1,693,122.18)</u>	<u>9,396,350.88</u>	<u>(5,971,378.71)</u>	<u>(9,547,190.02)</u>
OTHER FINANCING SOURCES (USES)						
Inter-fund Transfers In	-	-	-	-	-	-
Inter-fund Transfers Out	(103,217.00)	-	-	-	-	(1,437,984.93)
Other Sources (Uses)	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	<u>(103,217.00)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,437,984.93)</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>2,160,812.99</u>	<u>3,467,664.00</u>	<u>(1,693,122.18)</u>	<u>9,396,350.88</u>	<u>(5,971,378.71)</u>	<u>(10,985,174.95)</u>
BEGINNING BALANCE, as of July 1	13,090,028.52	22,477,339.71	12,490,335.24	25,945,003.71	18,701,856.89	35,341,354.59
Audit Adjustments⁽¹⁾	-	-	-	-	-	-
As of July 1 – Audited	13,090,028.52	22,477,339.71	12,490,335.24	25,945,003.71	18,701,856.89	35,341,354.59
Other Restatements	-	-	-	-	-	-
Adjusted beginning Balance	<u>13,090,028.52</u>	<u>22,477,339.71</u>	<u>12,490,335.24</u>	<u>25,945,003.71</u>	<u>18,701,856.89</u>	<u>35,341,354.59</u>
ENDING BALANCE	<u>\$15,250,841.51</u>	<u>\$25,945,003.71</u>	<u>\$10,797,213.06</u>	<u>\$35,341,354.59</u>	<u>\$12,730,478.18</u>	<u>\$24,356,179.64</u>
Unrestricted Balance	\$15,250,841.51	\$22,402,123.98	\$10,797,213.06	\$32,030,424.15	\$12,730,478.18	\$24,356,179.64
Restricted Balance	-	\$3,542,879.73	-	\$3,310,930.44	-	-

⁽¹⁾ 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.

⁽²⁾ The District projects a transfer of approximately \$1.44 million from the general fund to the food service fund to support the District's food service program during the COVID-19 pandemic.

⁽³⁾ Figures are projections.

Source: Gilroy Unified School District adopted general fund budgets for fiscal years 2018-19 through 2020-21; unaudited actuals for fiscal years 2018-19 and 2019-20; and first interim report for fiscal year 2020-21.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District’s long-term obligations for the year ended June 30, 2020, consisted of the following:

Long-Term Debt	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Amount Due Within One Year
General Obligation Bonds ⁽¹⁾	\$280,790,728	\$124,765,082	\$117,500,635	\$288,055,175	\$9,355,000
Certificates of Participation	25,110,000	-	865,000	24,245,000	880,000
Accumulated vacation	106,499	26,084	-	132,583	-
Net Pension Liability	127,337,627	4,884,659	-	132,222,286	-
Total - Bonds	433,344,854	129,675,825	118,365,635	444,655,044	10,235,000
Unamortized general obligation bond premium	18,324,905	-	8,523,944	9,800,961	-
Unamortized certificates of participation premium	1,956,983	-	108,220	1,848,763	-
Unamortized Loss on Refunding	(7,515,107)	(9,092,913)	-	(16,608,020)	-
Total Long-Term Debt ⁽²⁾	\$446,111,635	\$120,582,912	\$126,997,799	\$439,696,748	\$10,235,000

⁽¹⁾ Excludes the Series 2021 Bonds.

⁽²⁾ Excludes the Lease Leaseback Agreement (as defined and described below).

Source: Gilroy Unified School District Audited Financial Statements for fiscal year 2019-20.

General Obligation Bonds. Prior to the issuance of the Series 2021 Bonds, the District has outstanding six 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 Series 2021 Bonds.

See “THE SERIES 2021 BONDS – Outstanding Bonds” and “– Aggregate Debt Service” in the front portion of this 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, 2020, is set forth below:

Year Ending June 30	Principal	Interest	Total
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	990,000	763,650	1,753,650
2025	1,035,000	724,050	1,759,050
2026-2030	5,805,000	2,965,250	8,770,250
2031-2035	7,070,000	1,725,700	8,795,700
2036-2039	6,595,000	501,900	7,096,900
Total	\$24,245,000	\$9,194,100	\$33,439,100

Source: Gilroy Unified School District Audited Financial Report for fiscal year 2019-20.

Lease Leaseback Agreement. On June 18, 2019, the District entered into a Lease Leaseback Agreement (the “Lease Leaseback Agreement”) with Flint Builders, Inc. (the “Contractor”) related to the construction of a multipurpose building in accordance with California Education Code section 17406. The agreement is structured so that the District leases the construction site to the Contractor during the construction period. Concurrently, the Contractor leases the site back to the District under a sublease agreement. The terms of the Lease Leaseback Agreement are from June 18, 2019 to twelve months after whichever of the following comes first: (1) the date the District takes beneficial occupancy of the final phase of the project, or (2) the date of substantial completion, as defined in the Lease Leaseback Agreement. The total amount due under the Lease Leaseback Agreement is \$2,868,919, to be paid in monthly installments of \$100,000 from the District to the Contractor until August 1, 2021, at which point all amounts outstanding will be paid to the Contractor. As of June 30, 2020, the remaining balance to be paid was \$1,668,919.

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. Retirement 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 through 2019-20, 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
August 11, 2020	5,000,000	2.00	0.23	May 3, 2021

In fiscal year 2019-20, the District did not issue tax and revenue anticipation notes (“TRANS”) or borrower funds to supplement the District’s cash flow. In fiscal year 2020-21, the District issued \$5,000,000 aggregate principal amount of TRANS (the “Series 2020 Notes”), dated August 11, 2020, through the California School Cash Reserve Program Authority. The Series 2020 Notes mature on May 3, 2021. The District may issue TRANS or borrow funds in future fiscal years as and if necessary to supplement cash flow.

Employment

As of December 2020, the District employed approximately 1,039 full-time equivalent (“FTE”) employees, consisting of approximately 575 FTE non-management certificated employees, approximately 40 FTE certificated management employees, approximately 20 FTE classified non-management employees and approximately 404 FTE classified management employees. For fiscal year 2019-20, the total certificated and classified payrolls were approximately \$53.14 million and \$18.90 million, respectively. For fiscal year 2020-21, the total certificated and classified payrolls are projected to be approximately \$56.44 million and \$20.59 million, respectively.

The District’s certificated and classified employees are represented by formal bargaining organizations as shown in the table below. The District and each of its bargaining units are in negotiations. *[District to describe what is being negotiated and provide update prior to posting POS.]*

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
Gilroy Teachers Association	575	June 30, 2020
Gilroy Federation of Paraeducators	140	June 30, 2021
California School Employees’ Association – Ch. 69	264	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. The CalSTRS defined benefit pension plan provides retirement benefits (generally 2% of final compensation for each year of credited service) to participating employees based on hiring date, age, final compensation and years of credited service. The CalSTRS benefit pension plan is funded through a combination of investment earnings and statutorily set contributions from participating employees, employers (including the District) and the State. Prior to fiscal year 2014-15, the statutorily set rates did not vary annually to adjust for funding shortfalls or actuarial surpluses. As a result, the combined employee, employer and State contributions to CalSTRS were not sufficient to pay actuarially determined amounts. To address the shortfall and implement a new funding strategy, Governor Brown signed into law Assembly Bill 1469 on June 24, 2014, as part of the fiscal year 2014-15 State budget (the “2014-15 State Budget”). The 2014-15 State Budget introduced phased increases to employee, employer and State contributions to CalSTRS and sets forth a plan to eliminate CalSTRS’ unfunded liability by June 30, 2046.

The 2014-15 State Budget increased employee 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. On July 1, 2018, the rate increased to 10.250% of pay for employees hired on or after January 1, 2013. Employer contribution rates were also increased in fiscal year 2014-15 to 8.88% of payroll, with such rate increasing by 1.85% each year thereafter, plateauing at 19.10% of payroll in July 2020. However, due to supplemental payments of approximately \$850 million pursuant to the 2019-20 State Budget, employer contribution rates decreased from 18.13% to 17.10% in fiscal year 2019-20 and 19.10% to 18.40% in fiscal year 2020-21. In addition, pursuant to the 2020-21 State Budget, employer contribution rates are expected to decrease from 18.40% to 16.15% in fiscal year 2020-21 and from 17.10% to 16.02% in fiscal year 2021-22 (see table below). The

State’s total contribution was increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, and to 10.828% of payroll in fiscal year 2020-21. The State’s contribution includes an annual payment of 2.5% of payroll pursuant to a supplemental inflation protection program.

Pursuant to the 2014-15 State Budget, employer contribution rates, including school districts’ contribution rates, will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	17.10*
2020	16.15 [†]
2021	16.02 [†]

* Pursuant to the fiscal year 2019-20 State budget.

[†] Pursuant to the 2020-21 State Budget. See “– State Funding of Education; State Budget Process –2020-21 State Budget.”

Source: Assembly Bill 1469.

The following table sets forth the District’s employer contributions to CalSTRS as well as the State’s non-employer contributions to CalSTRS on behalf of the District for fiscal years 2016-17 through 2019-20, and the projected contribution for fiscal year 2020-21.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Contributions to CalSTRS for Fiscal Years 2016-17 through 2020-21**

Fiscal Year	District Contribution	State’s STRS On-Behalf Amounts
2016-17	\$6,504,361	\$4,152,840
2017-18	7,479,391	4,193,095
2018-19	8,814,006	8,088,662
2019-20	8,983,628	6,896,345
2020-21 ⁽¹⁾	8,546,781	5,468,242

⁽¹⁾ First interim report for fiscal year 2020-21.

Source: Gilroy Unified School District

The District’s total employer contributions to CalSTRS for fiscal years 2016-17 through 2019-20 were equal to 100% of the required contributions for each year. Pursuant to the 2014-15 State Budget, beginning in fiscal year 2021-22, the State Teachers Retirement Board is required to increase or decrease employer contribution rates to the rates designed to eliminate the CalSTRS unfunded liability by June 30, 2046. A decrease in investment earnings may result in increased employer contribution rates in order to timely eliminate the CalSTRS unfunded liability. As the world is currently experiencing a pandemic, the District cannot predict the impact of the outbreak of COVID-19 on investment earnings and employer contribution rates. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – Infectious Disease Outbreak.” However, under existing law, the State Teachers Retirement Board may not increase the employer contribution rate by more than 1% in any fiscal year up to a maximum contribution rate of 20.25%. The State Teachers Retirement Board may also adjust the State’s contribution rate by a maximum of 0.5% from year to year, based on the funding status of the CalSTRS actuarially determined unfunded liability.

As of June 30, 2019, the actuarial valuation (the “2019 CalSTRS Actuarial Valuation”) for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of \$105.7 billion, a decrease of approximately \$1.5 billion from the June 30, 2018 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2019 and June 30, 2018, based on the actuarial assumptions, were approximately 66.0% and 64.0%, respectively. According to the 2019 CalSTRS Actuarial Valuation, the funded ratio increased by 2.0% during the past year and has decreased by approximately 12% over the past 10 years. As described in the 2019 CalSTRS Actuarial Valuation, the additional State contribution and the return on the actuarial value of assets (7.7%) that exceeded the assumed return (7%) were the primary causes of the increase in the funded ratio from the prior year valuation. 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 2019 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 2019 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (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.

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. All school districts contributing to CalPERS participate in the same plan and share the same contribution rate in each year. However, unlike contributions to CalSTRS, which incrementally increase at statutorily set rates, 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 of CalPERS. 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.

CalPERS is funded by employee contributions and investment earnings, with the balance of the funding provided by employer contributions. School districts’ contributions decrease when investment earnings rise and increase when investment earnings decline. As a result, declines in investment earnings may result in substantial increases in school district contributions. The District cannot make any predictions as to the effect of a global pandemic, including the outbreak of COVID-19, on investment earnings and school district contributions. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – Infectious Disease Outbreak” for more information about the impact of COVID-19. Participating employees enrolled in CalPERS prior to January 1, 2013 contribute 7.00% of their respective salaries, while participating employees enrolled after January 1, 2013 contribute the higher of fifty percent of normal costs of benefits or an actuarially determined rate of 7.00% in fiscal year 2019-20. School districts are required to contribute to CalPERS at an actuarially determined rate, which was 18.062% of eligible salary expenditures for fiscal year 2018-19 and originally 20.733% and 22.68% for fiscal years 2019-20 and 2020-21, respectively. However, the employer contribution rate for fiscal year 2019-20 was reduced to 19.721% as a result of the State’s buydown of employer contribution rates in fiscal year 2019-20. Similarly, the 2020-21 State Budget allocates funding to buy down employer contribution rates in fiscal

years 2020-21 and 2021-22 to an estimated 20.70% and 22.84%, respectively. See “DISTRICT FINANCIAL MATTERS – State Funding of Education; State Budget Process – 2020-21 State Budget.”

The CalPERS Schools Pool Actuarial Valuation as of June 30, 2018 (the “2018 CalPERS Schools Pool Actuarial Valuation”) reported an actuarial accrued liability of \$92.07 billion with the market value of assets at \$64.85 billion, and a funded status of 70.4%. The actuarial funding method used in the 2018 CalPERS Schools Pool Actuarial Valuation is the “Entry Age Normal Cost Method.” The 2018 CalPERS Schools Pool Actuarial Valuation assumes, among other things, 2.625% inflation and payroll growth of 2.875% compounded annually. The 2018 CalPERS Schools Pool Actuarial Valuation reflects a discount rate of 7.25% compounded annually (net of administrative expenses) as of June 30, 2018 and 7.00% compounded annually (net of administrative expenses) as of June 30, 2019. The CalPERS Board adopted new demographic assumptions on December 19, 2017, including a reduction in the inflation assumption from 2.625% as of June 30, 2018 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 following table sets forth the District’s total employer contributions to CalPERS for fiscal years 2016-17 through 2019-20, and the projected contribution for fiscal year 2020-21.

**GILROY UNIFIED SCHOOL DISTRICT
(Santa Clara County, California)
Contributions to CalPERS for Fiscal Years 2016-17 through 2020-21**

Fiscal Year	Contribution
2016-17	\$2,565,408
2017-18	2,979,973
2018-19	3,612,801
2019-20	3,898,809
2020-21 ⁽¹⁾	3,984,869

⁽¹⁾ First interim report for fiscal year 2020-21.
Source: Gilroy Unified School District

The District’s total employer contributions to CalPERS for fiscal years 2016-17 through 2019-20 were equal to 100% of the required contributions for each year.

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.

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, 2020.”

Governor’s Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a 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 \$137,300 for 2020, 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.

Insurance and Joint Ventures

The District is a member of one joint powers authority (“JPA”): the Santa Clara County Schools Insurance Group (“SCCSIG”). The District pays an annual premium to the entity for its coverage. The relationship between the District, the pools, and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes. The JPA provides insurance and services as noted for member school districts. During fiscal year 2019-20, the District made payments of \$839,016 to SCCSIG.

The JPA is governed by boards consisting of a representative from each member district. The governing boards control the operations of the 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 the 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, 2020” 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 XIII C 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 XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D 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. Gardino*. 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.

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.

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 immediately 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 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.

The Series 2021 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 Series 2021 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 revenue.

APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

APPENDIX C

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

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

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

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

APPENDIX E

SANTA CLARA COUNTY AND TREASURY INVESTMENT POLICY AND POOLED SURPLUS INVESTMENTS

The following information has been furnished by the Office of the Auditor-Controller-Treasurer-Tax Collector, County of Santa Clara. It describes (i) the policies applicable to investment of District funds, including bond proceeds and tax levies, and funds of other agencies held by the Auditor-Controller-Treasurer-Tax Collector and (ii) the composition, carrying amount, market value and other information relating to the investment pool. Further information may be obtained directly from the Auditor-Controller-Treasurer, Tax Collection, County of Santa Clara, 585 Fiscal Drive, Room 100, Santa Rosa, CA 95403.

APPENDIX F

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 Series 2021 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series 2021 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 Series 2021 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.

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 the Paying Agent. Under such circumstances, in the

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

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.