

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2021

NEW ISSUE
DTC BOOK-ENTRY ONLY

Fitch Rating: “_”
Moody’s Rating: “_”
See “RATINGS” herein

In the opinion of Lozano Smith, LLP, Bond Counsel to the District, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. Bond Counsel expresses no other opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds. See “TAX MATTERS” herein.



\$140,500,000*

Elk Grove Unified School District
(Sacramento County, California)

General Obligation Bonds, Election of 2016, Series 2021

DATED: Date of Delivery**DUE: August 1, as shown on the inside cover**

The Elk Grove Unified School District General Obligation Bonds, Election of 2016, Series 2021 (the “Bonds”) in the aggregate principal amount of \$140,500,000* are being issued by the Elk Grove Unified School District (the “District”) to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 8, 2016, (ii) fund a deposit to the Interest and Sinking Fund (as defined herein) and (iii) pay certain costs of issuance of the Bonds. See “PLAN OF FINANCE” herein.

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes levied and collected by Sacramento County against taxable property located within the District’s boundaries. The Board of Supervisors of Sacramento County is empowered and obligated to annually levy and collect *ad valorem* property taxes without limitation as to rate or amount on all taxable property within the boundaries of the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

The Bonds are being issued as current interest bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on August 1 in the years and amounts set forth on the inside cover page hereof. Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2022. The Bonds are subject to redemption prior to maturity. See “THE BONDS—Payment of Principal and Interest” and “—Redemption Provisions” herein.

The Bonds are being issued as fully registered bonds, without coupons, in book-entry form only. When delivered, the Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), acting as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only, and only in authorized denominations as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by Zions Bancorporation, National Association (the “Paying Agent”) to DTC for subsequent disbursement to DTC participants who will remit such payments to the Beneficial Owners. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELEVANT TO AN INVESTMENT IN THE BONDS. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. CAPITALIZED TERMS USED ON THIS COVER PAGE NOT OTHERWISE DEFINED WILL HAVE THEIR MEANINGS SET FORTH HEREIN.

MATURITY SCHEDULE

See Inside Cover Page

The Bonds are offered when, as, and if issued by the District and received by the Underwriter, subject to approval as to their legality by Lozano Smith, LLP, Sacramento, California, Bond Counsel, and subject to certain other conditions. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about April 20, 2021.

This Official Statement is dated _____, 2021.

*Preliminary, subject to adjustment.

The information contained in this Preliminary Official Statement has been deemed by the District to be final as of the date hereof; however, the information contained herein is subject to completion or amendment. These securities may not be sold, nor may offers to buy be accepted, prior to the time the Official Statement is delivered in final form. 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 jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE

\$140,500,000^{*}
 Elk Grove Unified School District
 (Sacramento County, California)
 General Obligation Bonds, Election of 2016, Series 2021

Maturity Date August 1	Principal Amount [*]	Interest Rate	Yield	Price	CUSIP ⁺
2022					287281__
2023					287281__
2028					287281__
2029					287281__
2030					287281__
2031					287281__
2032					287281__
2033					287281__
2034					287281__
2035					287281__
2036					287281__
2037					287281__
2038					287281__
2039					287281__
2040					287281__
2041					287281__
2042					287281__
2043					287281__
2044					287281__
2045					287281__

^{*} Preliminary; subject to adjustment

⁺CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. Copyright© 2021 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the District nor the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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

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

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

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

Information in Official Statement. The information set forth herein has been furnished by the District and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion 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.

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

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves 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 its expectations or events, conditions or circumstances on which such statements are based change.

Statement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under 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.

Stabilization of and Changes to Offering Prices. In connection with the offering, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers, institutional investors, banks or others at prices lower or higher than the public offering prices stated on the inside cover page hereof, and such public offering prices may be changed from time to time by the Underwriter.

\$140,500,000*
Elk Grove Unified School District
(Sacramento County, California)
General Obligation Bonds, Election of 2016, Series 2021

DISTRICT BOARD OF EDUCATION

Beth Albiani, Board President
Crystal Martinez-Alire, Ed.D., Board Clerk
Nancy Chaires Espinoza, Trustee
Carmine S. Forcina, Trustee
Anthony “Tony” Perez, Trustee
Sean J. Yang, Trustee
Gina Jamerson, Trustee

DISTRICT ADMINISTRATION

Christopher R. Hoffman, Superintendent
Robert Pierce, Deputy Superintendent, Business Services and Facilities
Mark Cerutti, Deputy Superintendent, Education Services and Schools
David Reilly, Associate Superintendent
Bindy Grewal, Ed.D., Assistant Superintendent, PreK-6 Education
Craig Murray, Assistant Superintendent, Secondary Education
Shannon Hayes, Chief Financial Officer
Amreek Singh, Chief Human Resources Officer

Elk Grove Unified School District
9510 Elk Grove-Florin Road
Elk Grove, California 95624
(916) 686-5085

MUNICIPAL ADVISOR

Government Financial Strategies inc.
1228 N Street, Suite 13
Sacramento, California 95814
(916) 444-5100

BOND COUNSEL

Lozano Smith, LLP
One Capitol Mall, Suite 640
Sacramento, California 95814
(916) 329-7433

PAYING AGENT

Zions Bancorporation, National Association
550 South Hope Street, Suite 2875
Los Angeles, California 90071
(213) 593-3155

* Preliminary; subject to adjustment

\$140,500,000*
Elk Grove Unified School District
(Sacramento County, California)
General Obligation Bonds, Election of 2016, Series 2021

TABLE OF CONTENTS

	<u>Page #</u>
INTRODUCTORY INFORMATION	1
General	1
The District.....	1
Purpose of Bonds	1
Authority for Issuance.....	2
Description of the Bonds.....	2
Source of Payment for the Bonds.....	2
Bond Insurance.....	2
COVID-19 Pandemic	2
Tax Matters	3
Continuing Disclosure.....	3
Professionals Involved	3
Other Information.....	3
THE BONDS	3
Purpose	3
Authority for Issuance	4
Form and Initial Registration	4
Payment of Principal and Interest	5
Redemption Provisions	5
Transfer and Exchange of Bonds	7
Discharge of Obligations.....	8
Unclaimed Moneys	8
Paying Agent.....	8
PLAN OF FINANCE.....	9
Application and Investment of Bond Proceeds	9
Permitted Investments	9
Sources and Uses of Funds	10
Debt Service Schedules	10
SECURITY AND SOURCE OF PAYMENT	12
Introduction	12
Statutory Lien on <i>Ad Valorem</i> Property Tax Revenues	13
Assessed Valuation of Property	14
Reassessments and Appeals of Assessed Value.....	17
Risk of Decline in Property Values	18
Tax Rates.....	19
Direct and Overlapping Bonded Debt.....	20
Tax Collections and Delinquencies	22
Alternative Method of Tax Apportionment	22
Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes	23
COVID-19 Pandemic	23
SACRAMENTO COUNTY POOLED INVESTMENT FUND	25

* Preliminary; subject to adjustment

AREA ECONOMIC PROFILE	26
General Information	26
Population	27
Personal Income	27
Labor Force and Employment.....	28
Employment by Industry	30
Major Employers.....	31
Commercial Activity	33
Construction Activity	34
THE DISTRICT	34
General Information	34
The District Board of Trustees and Key Administrative Personnel	35
Enrollment	35
Charter Schools	36
Employee Relations	36
Impact of the COVID-19 Pandemic	37
Pension Plans	38
Other Postemployment Benefits (OPEB).....	44
Public Entity Risk Pools and Joint Powers Authorities	45
Cyber Security.....	45
DISTRICT FINANCIAL INFORMATION	45
Accounting Practices.....	45
Budget and Financial Reporting Process	46
Financial Statements	48
The 2020-21 Second Interim Report.....	49
Revenues	50
Expenditures.....	52
Short-Term Borrowings	52
Capitalized Lease Obligations.....	52
Long-Term Borrowings	52
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES..	54
Background	54
Article XIII A of the State Constitution	54
Article XIII B of the State Constitution	55
Articles XIII C and XIII D of the State Constitution	55
Minimum Guarantee of State Funding for Education.....	56
Community Redevelopment and Revitalization	57
Limits on State Authority Over Local Tax Revenues	57
Temporary State Tax Increases	58
Enacted Budget Required for Disbursement of State Funds.....	58
State and School District Budgetary Reserves	58
School Facilities Funding.....	59
Impact of Future Legislation	60
FUNDING OF PUBLIC EDUCATION IN THE STATE	60
Sources of Revenue for Public Education.....	60
The State Budget Process.....	63
The 2020-21 State Budget.....	63
LAO Fiscal Outlook	66
Governor’s Proposed 2021-22 Budget	67
Future Budgets	70
LEGAL MATTERS	71
Litigation	71
Legal Opinion.....	71
Limitations on Remedies; Amounts Held in the County Pool	71
Legality for Investment in California.....	72
TAX MATTERS.....	72
RATINGS	73
MUNICIPAL ADVISOR.....	74
INDEPENDENT AUDITOR.....	74

UNDERWRITING AND INITIAL OFFERING PRICE	74
CONTINUING DISCLOSURE.....	74
ADDITIONAL INFORMATION.....	75
APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2020	
APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX C—FORM OF OPINION OF BOND COUNSEL	
APPENDIX D—SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY	
APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM	

[THIS PAGE INTENTIONALLY LEFT BLANK]

\$140,500,000*
Elk Grove Unified School District
(Sacramento County, California)
General Obligation Bonds, Election of 2016, Series 2021

OFFICIAL STATEMENT

INTRODUCTORY INFORMATION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, table of contents and attached appendices (the “Official Statement”), is to provide certain information concerning the sale and delivery of the Elk Grove Unified School District General Obligation Bonds, Election of 2016, Series 2021 issued in the aggregate principal amount of \$140,500,000* (the “Bonds”).

This INTRODUCTORY INFORMATION is not a summary of this Official Statement—it is only a brief description of and guide to this Official Statement. This INTRODUCTORY INFORMATION is qualified by more complete and detailed information contained in this entire Official Statement. A full review of this entire Official Statement should be made by a person interested in investing in the Bonds. The offering of the Bonds to potential investors is made only by means of this entire Official Statement.

The District

Elk Grove Unified School District (the “District”), a political subdivision of the State of California (the “State”), was established in 1959. The District encompasses approximately 320 square miles in the central portion of Sacramento County (the “County”). The District serves a population of approximately 342,000 people residing in the City of Elk Grove, the City of Rancho Cordova, and the City of Sacramento (together, the “Cities”) as well as unincorporated areas of the County.

The District provides education to approximately 62,900 students in transitional kindergarten through twelfth grade as well as students in adult education. The District operates 42 elementary schools, nine middle schools, nine comprehensive high schools, three continuation schools, one special education program, one independent study program, one dependent charter school, and one virtual online school, as well as an adult education program and an adult career training center. The District is governed by a seven-member Board of Education (the “District Board”) See “THE DISTRICT” and “DISTRICT FINANCIAL INFORMATION” herein.

Purpose of Bonds

The Bonds are being issued by the District to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 8, 2016, (ii) fund a deposit to the Interest and Sinking Fund (as defined herein) to pay debt service on general obligation bonds of the District and (iii) pay certain costs of issuance of the Bonds. See “THE BONDS—Authority for Issuance” and “PLAN OF FINANCE” herein.

* Preliminary; subject to adjustment

Authority for Issuance

The Bonds are being issued by the District under and pursuant to the California Constitution (the “State Constitution”), certain provisions of the California Government Code (the “Government Code”) and the California Education Code (the “Education Code”), as applicable, and a resolution adopted by the District Board on March 23, 2021 (the “District Resolution”). See “THE BONDS—Authority for Issuance” herein.

Description of the Bonds

The Bonds are being issued as fully registered bonds, without coupons, in book-entry form only. When delivered, the Bonds will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”). So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by Zions Bancorporation, National Association as paying agent (the “Paying Agent”) to DTC for subsequent disbursement to DTC participants who will remit such payments to the beneficial owners of the Bonds (the “Beneficial Owners”). See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Bonds are being issued as current interest bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds are dated their date of delivery and mature on August 1 in each of the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2022. Interest on the Bonds is calculated on the basis of a 360-day year comprised of 12 months of 30 days each. See “THE BONDS—Payment of Principal and Interest” herein.

The Bonds are subject to redemption prior to maturity. See “THE BONDS—Redemption Provisions” herein.

Source of Payment for the Bonds

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes, levied pursuant to the provisions of the State Constitution and other State law, which the Board of Supervisors of Sacramento County (the “County Board”) is empowered and obligated to annually levy and collect, without limitation as to rate or amount, on all taxable property within the boundaries of the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds, and from amounts on deposit in the Interest and Sinking Fund (as defined herein). See “SECURITY AND SOURCE OF PAYMENT” herein.

Bond Insurance

The decision as to whether or not payment of debt service on the Bonds will be insured will be determined by the Underwriter of the Bonds at the time of the sale of the Bonds.

COVID-19 Pandemic

An outbreak of a respiratory disease caused by a new strain of coronavirus (“COVID-19”) was first detected in China in late 2019 and has subsequently spread globally. The federal and State governments have both declared emergencies and taken actions to limit the spread of the outbreak and reduce the resulting economic impact. The District cannot predict the outbreak’s extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District’s financial condition, the assessed value of real property in the District or property tax collections by the County within the boundaries of the District. See “SECURITY AND SOURCE OF PAYMENT—COVID-19 Pandemic” and “THE DISTRICT—Impact of the COVID-19 Pandemic” herein.

Tax Matters

In the opinion of Lozano Smith, LLP, bond counsel to the District (“Bond Counsel”), subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. Bond Counsel expresses no other opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds. See “TAX MATTERS” herein. The form of the proposed opinion of Bond Counsel relating to the Bonds is included with this Official Statement. See “APPENDIX C—FORM OF OPINION OF BOND COUNSEL” attached hereto.

Continuing Disclosure

The District will covenant for the benefit of the Underwriter, the Registered Owners (as defined herein) and the Beneficial Owners to make available annually certain financial information and operating data relating to the District and to provide notices of the occurrence of certain enumerated events in compliance with Securities and Exchange Commission (the “SEC”) Rule 15c2-12(b)(5). The specific nature of the information to be made available annually and the enumerated events for which notice will be given are set forth in “APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. See also “CONTINUING DISCLOSURE” herein.

Professionals Involved

Certain proceedings in connection with the sale and delivery of the Bonds are subject to the approving legal opinion of Lozano Smith, LLP, Sacramento, California, as Bond Counsel to the District. Government Financial Strategies inc., Sacramento, California, is acting as municipal advisor (the “Municipal Advisor”) to the District with respect to the Bonds. See “MUNICIPAL ADVISOR” herein. Zions Bancorporation, National Association will act as paying agent with respect to the Bonds. Bond Counsel and the Paying Agent will receive compensation contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement may be considered current only as of its date that has been made a part of the cover page hereof, and the information contained herein is subject to change. A description of the Bonds and the District, together with summaries of certain provisions of the District Resolution and other legal documents related to the Bonds (collectively, the “Legal Documents”) are included in this Official Statement. Such summaries do not purport to be comprehensive or definitive, and all references made herein to the Legal Documents approved by the District are qualified in their entirety by reference to such documents, and all references made herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Legal Documents.

Interested parties may obtain copies of the Legal Documents, audited financial statements, annual budgets, or other information which is generally made available to the public by contacting Elk Grove Unified School District, 9510 Elk Grove-Florin Road, Elk Grove, California 95624, telephone (916) 686-7722, Attention: Deputy Superintendent, Business Services and Facilities, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

THE BONDS

Purpose

The Bonds are being issued by the District to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 8, 2016, (ii) fund a deposit to the Interest and Sinking Fund (as defined herein) to pay debt service on general obligation bonds of the District and (iii) pay certain costs of issuance of the Bonds. See “— Authority for Issuance” and “PLAN OF FINANCE” herein.

Authority for Issuance

The Bonds are being issued by the District in accordance with the provisions of Article XIII A, Section 1 and Article XVI, Section 18 of the State Constitution, the provisions of Government Code Section 53506 *et seq.*, and all laws amendatory to or supplemental thereof, certain provisions of the Education Code, including Section 15264 *et seq.*, and all laws amendatory to or supplemental thereof, and pursuant to the provisions of the District Resolution. The District may incur bonded indebtedness upon the vote of 55 percent or more of the qualified electors of the District voting on the proposition pursuant to Article XIII A, subject to the debt limitations set forth in Article XVI of the State Constitution and the Education Code.

Pursuant to provisions of State law, the District Board adopted a resolution calling for an election to authorize the issuance of \$476.0 million in aggregate principal amount of general obligation bonds for authorized school purposes. On November 8, 2016, at an election duly held pursuant to State law, more than 55 percent of the votes received from qualified voters within the boundaries of the District approved “Measure M” (the “2016 Authorization”), which is summarized as follows:

“To repair and modernize classrooms, fix deteriorating roofs, plumbing, and HVAC systems, improve student safety and campus security, construct and upgrade additional classrooms, labs, career technical education facilities and instructional technology to support student achievement in math, science, arts and skilled trades and keep up with growth and relieve overcrowding shall the Elk Grove Unified School District issue \$476,000,000 in bonds to be spent only on specified projects, with independent citizen oversight and no money for administrator salaries?”

The Sacramento County Registrar of Voters certified the results of the election as follows:

2016 Authorization Elk Grove Unified School District

<u>Yes Votes</u>	<u>No Votes</u>
78,517 (65.17%)	41,964 (34.83%)

Source: Sacramento County Registrar of Voters.

On May 25, 2017, the District issued the first series of bonds authorized by the 2016 Authorization, the Elk Grove Unified School District General Obligation Bonds, Election of 2016, Series 2017 in the aggregate principal amount of \$82,100,000 (the “2017 Bonds”). On February 20, 2019, the District issued the second series of bonds authorized by the 2016 Authorization, the Elk Grove Unified School District General Obligation Bonds, Election of 2016, Series 2019 in the aggregate principal amount of \$121,000,000 (the “2019 Bonds”). The Bonds represent the third series of bonds to be issued by the District under the 2016 Authorization. Upon the issuance of the Bonds, the District will have \$132.4 million of authorized but unissued bonds remaining under the 2016 Authorization^{*}. See “DISTRICT FINANCIAL INFORMATION—Long-Term Borrowings” herein.

Form and Initial Registration

The Bonds will be initially executed and delivered as one fully registered bond for each maturity in a denomination corresponding to the total principal amount represented by the Bonds payable on such date, without coupons, in the name of Cede & Co., as nominee of DTC, acting as securities depository for the Bonds. Purchases of Bonds under the DTC book-entry system must be made by or through a DTC participant in the principal amount of \$5,000 or integral multiples thereof for each maturity, and ownership interests in Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, Beneficial Owners will not receive physical certificates

^{*} Preliminary; subject to adjustment

representing their ownership interests in the Bonds. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

Pursuant to the District Resolution, the Paying Agent will keep and maintain, for and on behalf of the District, registration books (the “Bond Register”) for recording the owners of the Bonds (the “Registered Owners”), the transfer and exchange of Bonds, and the payment of the principal of and interest on the Bonds to the Registered Owners. All transfers and exchanges of Bonds will be noted in the Bond Register.

The person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond for all purposes of the District Resolution. Payment of or on account of the principal of and interest on any Bond will be made only to or upon the order of that person; neither the District nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the District Resolution.

So long as the Bonds are registered in the name of Cede & Co., or its registered assigns, as nominee for DTC, references in this Official Statement to the Registered Owners mean Cede & Co., or its registered assigns, and do not mean the purchasers or Beneficial Owners of the Bonds.

Payment of Principal and Interest

The Bonds are dated their date of delivery and mature on August 1 in each of the years and in the amounts set forth on the inside cover page hereof. The Bonds are issued in denominations of \$5,000 principal amount, or any integral multiple thereof. Interest on the Bonds is calculated on the basis of a 360-day year comprised of 12 months of 30 days each. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing February 1, 2022, at the annual interest rates shown on the inside cover page hereof.

Each Bond bears interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated as of a day during the period from the 16th day of the month next preceding any Interest Payment Date to the Interest Payment Date, inclusive, in which event it bears interest from such Interest Payment Date, or (ii) it is authenticated on or before January 15, 2022, in which event it bears interest from its dated date.

The principal of and interest on the Bonds is payable in lawful money of the United States of America. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by the Paying Agent to DTC in immediately available funds on the date due for subsequent disbursement to DTC participants who will remit such payments to the Beneficial Owners. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

In the event the book-entry system is no longer in use, principal of the Bonds is payable upon presentation and surrender at the principal office of the Paying Agent, and interest on the Bonds (including the final interest payment upon maturity or redemption) is payable by check or draft of the Paying Agent mailed to the Registered Owner thereof at such Registered Owner’s address as it appears in the Bond Register on the close of business on the fifteenth of the month preceding such Interest Payment Date (the “Record Date”); provided that at the written request of the Registered Owner of at least \$1,000,000 aggregate principal amount of Bonds, which written request is on file with the Paying Agent as of any Record Date, interest on such Bonds shall be paid on the succeeding Interest Payment Date, by wire transfer, to the account specified in such written request.

Redemption Provisions

Optional Redemption. The Bonds maturing on or before August 1, 2030 are not subject to optional redemption prior to maturity. The Bonds maturing on or after August 1, 2031, are subject to optional redemption, at the option of the District, in whole or in part by order as determined by District, from any source of available funds, on August 1, 2030, or on any date thereafter, at a price equal to 100 percent of the principal amount thereof, without premium, together with accrued interest to the date fixed for redemption, if any.

Mandatory Sinking Fund Redemption. The Bonds maturing by their term on August 1, 20__ (the “20__ Term Bond”) and August 1, 20__ (the “20__ Term Bond” and, together with the 20__ Term Bond, the “Term Bonds”) are subject to mandatory sinking fund redemption by the District prior to their stated maturity date, in part by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, if any, without

premium, solely from mandatory sinking fund payments on each August 1 as provided in the table below, but which amounts shall be reduced by the amount of any Term Bonds of that maturity optionally redeemed as specified by the District, or if not specified, proportionally.

Mandatory Sinking Fund Redemption Schedule
20__ Term Bond

Year Ending <u>August 1</u>	Mandatory Sinking <u>Fund Amount</u>
20__	\$ __, __, 000
20__	__, __, 000
20__ ¹	__, __, 000

¹Indicates maturity of the \$ _____ 20__ Term Bond.

Mandatory Sinking Fund Redemption Schedule
20__ Term Bond

Year Ending <u>August 1</u>	Mandatory Sinking <u>Fund Amount</u>
20__	\$ __, __, 000
20__ ¹	__, __, 000

¹Indicates maturity of the \$ _____ 20__ Term Bond.

Notice of Redemption. Notice of any redemption of the Bonds shall be mailed 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 Registered Owners thereof of any Bonds designated for redemption at their address appearing on the Bond Register, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate (see “APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto). Each notice of redemption shall state: (i) the date of such notice; (ii) the name of the Bonds and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the Bonds and the dates of maturity or maturities of Bonds to be redeemed; (vi) if less than all of the Bonds of a series of any maturity are to be redeemed, the distinctive numbers of the Bonds of each maturity of such series to be redeemed; (vii) in the case of Bonds of a series redeemed in part only, the respective portions of the principal amount of the Bonds of each maturity of such series to be redeemed; (viii) the CUSIP number, if any, of each maturity of Bonds to be redeemed; (ix) a statement that such Bonds must be surrendered by the Registered 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 Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. Neither the failure of the Registered Owners of any Bonds or by any securities depository or information service to receive notice of redemption, nor any defect in such notice will affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Upon the surrender of any Bond redeemed in part only, the Paying Agent will execute and deliver to the Registered Owner thereof a new Bond or Bonds of like tenor and maturity and of authorized denominations equal in principal amounts to the unredeemed portion of the Bond surrendered. Such partial redemption will be valid upon payment of the amount required to be paid to such Registered Owner, and the District will be released and discharged thereupon from all liability to the extent of such payment.

Rescission of Notice of Redemption. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Registered Owners of the Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the interest and sinking fund maintained in the County treasury pursuant to Education Code Section 15251 to be applied only to the payment of principal of and interest on the Bonds (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 Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given, except as to timing requirements. The actual receipt by the Registered Owner of any Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Effect of Redemption. When notice of redemption has been given substantially in accordance with the provisions in the District Resolution and when the redemption price of the Bonds called for redemption is set aside, the Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Bonds at the place specified in the notice of redemption, such Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Registered Owners of such Bonds so called for redemption after such redemption date shall be entitled to payment thereof only from the Interest and Sinking Fund of the District, or a trust fund established for such purpose. All Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Transfer and Exchange of Bonds

Except as provided below, DTC will be the Registered Owner of all of the Bonds, and the Bonds will be registered in the name of Cede & Co., as nominee for DTC. The Paying Agent and the District may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for all purposes of the District Resolution and neither the Paying Agent nor the District will be affected by any notice to the contrary. The Paying Agent and the District have no responsibility or obligation to any depository system participant, any person claiming to be a Beneficial Owner, or any other person not shown on the Bond Register as being a Registered Owner, with respect to the accuracy of any records maintained by DTC or any DTC participant or the payment by DTC or any DTC participant of any amount with respect to the principal of or interest on the Bonds. The District will cause to be paid all principal of and interest on the Bonds only to DTC, and all such payments will be valid and effective to fully satisfy and discharge the District’s obligations with respect to the principal of and interest on the Bonds to the extent of the sum or sums so paid. Except under the conditions noted below, no person other than DTC will receive a Bond. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

Registered ownership of Bonds issued in book-entry form, or any portions thereof, may not be transferred except: (i) to any successor of DTC or its nominee, or to any substitute depository designated pursuant to clause (ii) below (a “substitute depository”); provided that any successor of DTC or substitute depository must be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute depository upon (a) the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or (b) a determination by the District that DTC or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository must be qualified under any applicable laws to provide the services proposed to be provided by it; or (iii) to any person as provided in the District Resolution and summarized below, upon (a) the resignation of DTC or its successor (or substitute depository or its successor) from its functions as depository, or (b) a determination by the District that it is in the best interests of the District to remove DTC or its successor (or any substitute depository or its successor) from its function as depository.

If the book-entry system as described herein is no longer used with respect to the Bonds, the provisions in the District Resolution, summarized below, will govern the transfer and exchange of Bonds.

Any Bond may, in accordance with its terms, be transferred, upon the Bond Register, by the Registered Owner thereof, in person or by the duly authorized attorney of such Registered Owner, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Paying Agent. Bonds may be exchanged for Bonds of other authorized denominations of the same maturity and Interest Payment Date, by the Registered Owner thereof, in person or by the duly authorized attorney of such Registered Owner, upon surrender of such Bond to the Paying Agent for cancellation, accompanied by delivery of a duly executed request for exchange in a form approved by the Paying Agent.

Whenever any Bond or Bonds is surrendered for transfer or exchange, the designated District officials shall execute and the Paying Agent shall authenticate and deliver a new Bond or Bonds, of the same maturity, Interest Payment Date and interest rate for a like aggregate principal amount. The Paying Agent may require the payment by any Registered Owner of Bonds requesting any such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of any Bond is required to be made by the Paying Agent (i) during the period established by the Paying Agent for selection of the Bonds for redemption, and (ii) after any Bond has been selected for redemption.

Discharge of Obligations

The obligations of the District under the District Resolution and the Bonds are to be fully discharged and satisfied as to any Bond, and such Bond will no longer be deemed to be outstanding and shall be deemed to have been paid for all purposes: (i) when such Bond is canceled or surrendered for cancellation and is subject to cancellation, or has been purchased by the Paying Agent from moneys in the Interest and Sinking Fund; or (ii) as to any Bond not canceled, surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and the applicable premium, if any, on any Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or by acceleration or otherwise), either has been made or caused to be made in accordance with the terms of the District Resolution, or has been provided for by irrevocably depositing with the Paying Agent, in trust, and irrevocably appropriated and set aside exclusively for such payment, either (a) moneys sufficient to make such payment, or (b) United States Treasury notes, bonds, bills or certificates of indebtedness, or obligations issued by any agency or department of the United States which are secured, directly or indirectly, by the full faith and credit of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), and which are not callable by the issuer thereof prior to maturity ("Federal Securities"), maturing as to principal and interest in such amounts and at such times as will in the opinion of a certified public accountant delivered to the County, Paying Agent, and the District, provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the District Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, or (c) a combination of both such moneys and such Federal Securities; and all necessary and proper fees, compensation and expenses of the Paying Agent with respect to such deposit have been paid or the payment thereof has been provided for to the satisfaction of the Paying Agent.

At such time as a Bond is deemed to be no longer outstanding under the District Resolution, such Bond shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity or acceleration as aforesaid, or otherwise), and except for any payment from such moneys or Federal Securities set aside as aforesaid, shall no longer be secured by or entitled to the benefits of the District Resolution.

Unclaimed Moneys

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

Paying Agent

Zions Bancorporation, National Association will act as the transfer agent, bond registrar, authenticating agent and paying agent for the Bonds unless and until replaced by the District with a successor paying agent as described in the District Resolution. As long as Cede & Co or a successor nominee of DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice to Registered Owners only to DTC. Any failure of DTC to advise any DTC participant or of any DTC participant to notify any Beneficial Owner of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to any action premised on such notice. The Paying Agent, the District and the Underwriter have no responsibility or liability for any aspects of the records relating to, or payments made on account of, beneficial ownership, or for maintaining, supervising, or reviewing any records relating to beneficial ownership of interests in the Bonds.

PLAN OF FINANCE

Application and Investment of Bond Proceeds

A portion of the proceeds of the sale of the Bonds, exclusive of any premium, will be transferred to the Sacramento County Director of Finance (the "County Director of Finance") for deposit in the Elk Grove Unified School District, General Obligation Bonds, Election of 2016, Series 2021 Building Fund (the "Building Fund") to be created and maintained by the District pursuant to Education Code Section 15146(g). Moneys deposited in the Building Fund will be used for the purpose for which the Bonds are issued. Interest earned on moneys held in the Building Fund will be retained in the Building Fund. Any amounts in the Building Fund not needed for the purposes of the Bonds will be transferred to the Interest and Sinking Fund.

A portion of the proceeds of the sale of the Bonds, exclusive of any premium, will be transferred to the Paying Agent for deposit into a fund to be created and established with the Paying Agent to pay costs associated with the issuance of the Bonds (the "Costs of Issuance Fund"). Moneys deposited in the Costs of Issuance Fund will be used solely for the payment of costs of issuance of the Bonds and will be invested pursuant to the terms of the District Resolution. Any proceeds of the sale of the Bonds deposited in the Costs of Issuance Fund not needed to pay costs of issuance of the Bonds will be transferred by the Paying Agent to the County Director of Finance for deposit in the Building Fund.

The premium, if any, from the sale of the Bonds will be transferred to the County Director of Finance for deposit in the Interest and Sinking Fund to be used for the payment of principal of and interest on general obligation bonds of the District including the Bonds. Funds in the Interest and Sinking Fund are irrevocably pledged for the payment of the principal of and interest on general obligation bonds of the District when and as the same fall due. Any amounts in the Interest and Sinking Fund not needed for the payment of debt service on the Bonds will be used to pay other general obligation bonds of the District or, if there are no other general obligation bonds of the District outstanding, will be transferred to the General Fund pursuant to Education Code Section 15234.

Permitted Investments

Under State law, the District is generally required to pay all moneys received from any source into the County Treasury to be held on behalf of the District. All funds held by the County Director of Finance in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Director of Finance, on behalf of the District, in such investments as are authorized by Government Code Sections 16429.1, 53601 and 53635 and following, and by the Sacramento County Annual Investment Policy of the Pooled Investment Fund (the "County Investment Policy"), as either may be amended or supplemented from time to time. See "SACRAMENTO COUNTY POOLED INVESTMENT FUND" herein and "APPENDIX D—SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY" attached hereto. Under existing law, amounts in the Building Fund are required to be held in the County Treasury. At no time shall the proceeds of the Bonds be withdrawn by the District for investment outside the County Treasury.

Sources and Uses of Funds

The sources and uses of funds in connection with the sale and delivery of the Bonds are set forth in the following table.

Sources and Uses of Funds General Obligation Bonds, Election of 2016, Series 2021

Sources of Funds	
Par Amount of Bonds	\$
Net Original Issue Premium	
 Total Sources of Funds	 _____ \$
Uses of Funds	
Building Fund	\$
Interest and Sinking Fund	
Costs of Issuance Fund ¹	
Underwriter's Discount	
 Total Uses of Funds	 _____ \$

¹The Costs of Issuance Fund will be used to pay costs of issuance of the Bonds, including fees and expenses of Bond Counsel, the Municipal Advisor, the Paying Agent and the rating agencies and certain other expenses related to the issuance of the Bonds.

Debt Service Schedules

Scheduled debt service on the Bonds (assuming no optional redemption of Bonds) is shown in the table on the following page.

Debt Service Schedule
General Obligation Bonds, Election of 2016, Series 2021

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Semiannual Debt Service</u>
February 1, 2022			
August 1, 2022			
February 1, 2023			
August 1, 2023			
February 1, 2024			
August 1, 2024			
February 1, 2025			
August 1, 2025			
February 1, 2026			
August 1, 2026			
February 1, 2027			
August 1, 2027			
February 1, 2028			
August 1, 2028			
February 1, 2029			
August 1, 2029			
February 1, 2030			
August 1, 2030			
February 1, 2031			
August 1, 2031			
February 1, 2032			
August 1, 2032			
February 1, 2033			
August 1, 2033			
February 1, 2034			
August 1, 2034			
February 1, 2035			
August 1, 2035			
February 1, 2036			
August 1, 2036			
February 1, 2037			
August 1, 2037			
February 1, 2038			
August 1, 2038			
February 1, 2039			
August 1, 2039			
February 1, 2040			
August 1, 2040			
February 1, 2041			
August 1, 2041			
February 1, 2042			
August 1, 2042			
February 1, 2043			
August 1, 2043			
February 1, 2044			
August 1, 2044			
February 1, 2045			
August 1, 2045			
Total			

Upon issuance of the Bonds, scheduled debt service on the District's outstanding general obligation bond debt (assuming no optional redemption of such general obligation bond debt) is shown in the following table. See "DISTRICT FINANCIAL INFORMATION—Long-Term Borrowings" for more information on the District's outstanding general obligation bond debt.

**Outstanding General Obligation Bond Debt Service
Elk Grove Unified School District**

Year Ended June 30	Outstanding General Obligation Bonds	General Obligation Bonds Election of 2016 Series 2021	Total General Obligation Bond Debt Service
2021	\$12,470,381		
2022	14,525,381		
2023	6,222,881		
2024	6,222,881		
2025	6,222,881		
2026	6,222,881		
2027	6,222,881		
2028	6,222,881		
2029	6,222,881		
2030	7,384,181		
2031	9,148,606		
2032	9,504,456		
2033	9,896,431		
2034	10,287,131		
2035	10,693,938		
2036	11,120,413		
2037	11,551,725		
2038	12,010,891		
2039	12,484,900		
2040	12,982,063		
2041	13,487,819		
2042	14,029,213		
2043	14,574,988		
2044	15,162,100		
2045	15,741,300		
2046	16,372,800		
2047	17,025,500		
2048	13,066,100		
2049	<u>13,652,700</u>		
Total	\$320,733,185		

SECURITY AND SOURCE OF PAYMENT

Introduction

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes levied and collected by the County on all taxable property within the boundaries of the District for the payment of principal of and interest on the Bonds and from amounts on deposit in the Interest and Sinking Fund. The County Board is empowered and obligated to levy *ad valorem* property taxes upon all property subject to taxation by the District without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates) in order to provide sufficient funds for repayment of principal of

and interest on the Bonds when due. Although the County is obligated to levy and collect the *ad valorem* property tax for the payment of the Bonds, the Bonds are not a debt of the County.

The proceeds of such *ad valorem* property taxes, when collected, will be deposited into the Interest and Sinking Fund pursuant to Education Code Section 15251, which *ad valorem* property taxes, together with the amounts on deposit in the Interest and Sinking Fund, are irrevocably pledged pursuant to Government Code Sections 5450 and 5451 to the payment of principal of and interest on the Bonds when and as the same fall due. Pursuant to Government Code 53515 (discussed below), the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment of the Bonds. The County will take all actions necessary to levy such *ad valorem* property taxes in accordance with Education Code Section 15250 *et seq.* and to cause the proceeds from such levy to be deposited into the Interest and Sinking Fund to pay the principal of and interest on the Bonds when due. Interest earned on moneys held in the Interest and Sinking Fund shall be retained in the Interest and Sinking Fund and used for the purposes thereof.

Various officers of the County are responsible for the performance of each function in the property taxation system within the County. Property tax revenues result from the application of the appropriate tax rate to the total net assessed value of taxable property in the District. All property, including real, personal and intangible property, is taxable, unless granted an exemption by the State 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 California Legislature (the “State Legislature”) may create additional exemptions for personal property, but not for real property. Taxes on property located in a school district with boundaries extending into more than one county are administered separately by each county in which the property is located (the District is located only in the County). In such school districts, the rate of tax is determined by the school district’s primary county and the primary county directs the secondary county to place the tax on the tax rolls. Taxes collected by the secondary county are sent to the primary county.

Taxes on real property located within the boundaries of the District are assessed and collected by the County in the same manner, at the same time, and in the same installments as other *ad valorem* property taxes on real property located in the County. In addition to general obligation bonds issued by the District, other entities with jurisdiction in or overlapping with the District may issue debt payable from *ad valorem* property taxes also levied on parcels in the District. Such taxes have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as *ad valorem* property taxes levied for the payment of the Bonds and other general obligation bonds of the District.

In no event is the District obligated to pay principal of and interest on the Bonds from any source of funds other than from *ad valorem* property taxes and other amounts on deposit in the Interest and Sinking Fund. However, nothing in the District Resolution prevents the District from making advances of other moneys, howsoever derived, to any use or purpose permitted by law.

Statutory Lien on Ad Valorem Property Tax Revenues

Government Code Section 53515 provides that all general obligation bonds issued and sold by or on behalf of a local agency in the State are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. The lien automatically arises without the need for any action or authorization by the local agency or its governing board and is valid and binding from the time the bonds are executed and delivered. In addition, the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will automatically attach to the revenues and be effective, binding, and enforceable against the local agency, such as the District, as applicable, 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 tax. Government Code Section 53515 applies to the Bonds.

[A number of appeals are currently pending before the United States Court of Appeals for the First Circuit involving issues relating to the treatment and scope of special revenues in the insolvency proceedings of Puerto Rico. The decisions in these appeals may or may not affect the treatment or scope of special revenues in bankruptcy cases. To the extent the decisions in these appeals affect the treatment or scope of special revenues in bankruptcy cases, they may also affect the rating from Fitch Ratings, Inc. (“Fitch”) on the Bonds. It is not possible to predict the outcomes or the effects of the outcomes in these appeals and the District cannot predict if or how the ruling in the pending appeals may affect Fitch’s rating on the Bonds.]

Assessed Valuation of Property

The county assessor of Sacramento County (the “County Assessor”) must annually assess all taxable property in the County (except for “utility” property, assessed by the State) to the person, business or legal entity owning, claiming, possessing or controlling the property on January 1, the lien date. Property assessed by the County Assessor is subject to the reappraisal provisions set forth in the State Constitution. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES—Article XIII A of the State Constitution” herein. The duties of the County Assessor are to discover all assessable property, to inventory and list all taxable property, to value the property, and to enroll the property on the local assessment roll. Locally assessed taxable property is classified as either “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The secured roll contains real property sufficient, in the opinion of the County Assessor, to secure the payment of the taxes as a lien on real property. All other property is unsecured and assessed on the unsecured roll.

The secured roll also includes certain “utility” property, entered on the utility roll, located in the County but assessed by the State Board of Equalization (the “SBE”) rather than by the County Assessor. Such property includes property owned or used by State-regulated transportation and communications utilities such as railways, telephone and telegraph companies, companies transmitting or selling gas or electricity, and pipelines, flumes, canals and aqueducts lying within two or more counties. Property assessed by the SBE is not subject to the provisions of Proposition 13 (1978) and is annually reappraised at its market value as of January 1 and then allocated by formula among all the taxing jurisdictions in the County, including the District. The growth or decline in the assessed valuation of utility property is shared by all jurisdictions in the County. The District can make no predictions regarding the impact of the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies on the amount of tax revenue collected. 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 taxing jurisdictions in the County; the transfer of property located and taxed in the District to a State-assessed utility will, in general, reduce the assessed value in the District, as the value is shared among the other jurisdictions in the County. The greater the total assessed value of all taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the Bonds.

Shown in the following table are 10 years of the District’s historical assessed valuation. Total secured assessed value includes net local secured assessed value and the assessed value of the secured homeowner exemption. Utility value includes the assessed value on “utility” property as allocated by the SBE. Total unsecured assessed value includes net local unsecured assessed value and the assessed value of the unsecured homeowner exemption.

Historical Local Secured, Utility and Unsecured Assessed Valuation Elk Grove Unified School District

<u>Year Ended June 30</u>	<u>Total Local Secured Assessed Value</u>	<u>Total Utility Value</u>	<u>Total Unsecured Assessed Value</u>	<u>Total Assessed Value</u>	<u>Percentage Change</u>
2012	\$25,043,729,576	\$4,003,468	\$594,162,182	\$25,641,895,226	--
2013	23,878,849,478	3,713,624	597,871,983	24,480,435,085	(4.5%)
2014	25,751,363,838	2,914,644	577,183,248	26,331,461,730	7.6
2015	28,101,842,815	2,875,028	597,869,441	28,702,587,284	9.0
2016	29,456,568,996	2,845,756	622,571,884	30,081,986,636	4.8
2017	31,304,197,646	2,798,311	642,615,170	31,949,611,127	6.2
2018	33,157,678,859	2,797,697	676,158,546	33,836,635,102	5.9
2019	35,338,284,546	2,757,710	717,798,423	36,058,840,679	6.6
2020	37,446,892,985	2,180,726	810,447,089	38,259,520,800	6.1
2021	39,809,319,882	2,021,095	917,554,071	40,728,895,048	6.5

Source: Sacramento County Assessor.

The District may not issue bonds in excess of 2.5 percent of the assessed valuation of taxable property within its boundaries. 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. The District’s gross bonding capacity in fiscal year 2020-21 is approximately \$1,018.2 million. Upon issuance of the Bonds, the District will have remaining bonding

capacity of approximately \$700.9 million*. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES— Article XIII A of the State Constitution” herein.

The remaining tables under this caption “SECURITY AND SOURCE OF PAYMENT” have been prepared by California Municipal Statistics, Inc. They have been included for general information purposes only. The District has not independently verified and does not guarantee the accuracy of the information in such tables.

Shown in the following table is the distribution of total assessed value among the cities and unincorporated areas encompassed by the District for fiscal year 2020-21.

**Assessed Valuation by Jurisdiction
Elk Grove Unified School District**

<u>Jurisdiction:</u>	<u>Assessed Valuation in District</u>	<u>Percent of District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>Percent of Jurisdiction in District</u>
City of Elk Grove	\$22,507,488,667	55.26%	\$22,575,446,282	99.70%
City of Rancho Cordova	1,757,197,650	4.31	\$9,830,093,802	17.88%
City of Sacramento	4,830,531,433	11.86	\$58,814,794,231	8.21%
Unincorporated Sacramento County	<u>11,633,677,298</u>	<u>28.56</u>	<u>\$64,817,705,808</u>	<u>17.95%</u>
Total District	\$40,728,895,048	100.00%		
Sacramento County	\$40,728,895,048	100.00%	\$181,845,828,757	22.40%

Source: California Municipal Statistics, Inc.

* Preliminary; subject to adjustment

Shown in the following table is a distribution of taxable real property located in the District by principal purpose for which the parcels are used along with the local secured assessed valuation (excluding homeowners' exemption) and number of parcels for each use for fiscal year 2020-21.

**Assessed Valuation and Parcels by Land Use
Elk Grove Unified School District**

	2020-21 <u>Assessed Valuation¹</u>	Percent of <u>Total</u>	Number of <u>Parcels</u>	Percent of <u>Total</u>
<u>Non-Residential:</u>				
Agricultural / Rural	\$568,026,290	1.43%	1,064	0.96%
Commercial / Office	3,022,992,727	7.59	1,225	1.11
Vacant Commercial	225,260,865	0.57	382	0.34
Hotel / Motel	104,919,743	0.26	14	0.01
Industrial	1,917,197,309	4.82	906	0.82
Vacant Industrial	128,333,289	0.32	372	0.34
Recreational	96,276,868	0.24	89	0.08
Government / Social / Institutional	392,973,155	0.99	1,608	1.45
Miscellaneous	<u>48,274,694</u>	<u>0.12</u>	<u>1,412</u>	<u>1.28</u>
Subtotal Non-Residential	\$6,504,254,940	16.34%	7,072	6.39%
<u>Residential:</u>				
Single Family Residence	\$30,249,018,635	75.98%	90,249	81.50%
Condominium	517,250,276	1.30	3,015	2.72
Mobile Home	156,725,660	0.39	2,398	2.17
Mobile Home Park	79,868,781	0.20	19	0.02
2-4 Residential Units	657,583,253	1.65	2,728	2.46
5+ Residential Units/Apartments	942,548,922	2.37	386	0.35
Vacant Residential	<u>702,069,415</u>	<u>1.76</u>	<u>4,868</u>	<u>4.40</u>
Subtotal Residential	\$33,305,064,942	83.66%	103,663	93.61%
Total	\$39,809,319,882	100.00%	110,735	100.00%

¹Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

The following table sets forth the assessed valuation of single-family homes within the District's boundaries for fiscal year 2020-21.

**Per-Parcel Assessed Valuation of Single-Family Homes
Elk Grove Unified School District**

	<u>Number of Parcels</u>	<u>2020-21 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single-Family Residential	90,249	\$30,249,018,635	\$335,173	\$316,936

<u>2020-21 Assessed Valuation</u>	<u>Number of Parcels¹</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>	<u>Total Valuation</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>
\$0 - \$24,999	74	0.082%	0.082%	\$820,698	0.003%	0.003%
\$25,000 - \$49,999	268	0.297	0.379	11,221,287	0.037	0.040
\$50,000 - \$74,999	862	0.955	1.334	54,337,018	0.180	0.219
\$75,000 - \$99,999	1,090	1.208	2.542	96,780,936	0.320	0.539
\$100,000 - \$124,999	2,338	2.591	5.132	266,218,853	0.880	1.419
\$125,000 - \$149,999	3,485	3.862	8.994	481,207,600	1.591	3.010
\$150,000 - \$174,999	4,261	4.721	13.715	693,599,122	2.293	5.303
\$175,000 - \$199,999	5,386	5.968	19.683	1,010,832,278	3.342	8.645
\$200,000 - \$224,999	5,424	6.010	25.693	1,152,551,883	3.810	12.455
\$225,000 - \$249,999	5,618	6.225	31.918	1,335,048,648	4.414	16.869
\$250,000 - \$274,999	5,971	6.616	38.534	1,567,072,051	5.181	22.049
\$275,000 - \$299,999	6,192	6.861	45.396	1,778,773,990	5.880	27.930
\$300,000 - \$324,999	6,172	6.839	52.234	1,928,420,209	6.375	34.305
\$325,000 - \$349,999	5,474	6.065	58.300	1,847,916,683	6.109	40.414
\$350,000 - \$374,999	5,468	6.059	64.359	1,980,950,404	6.549	46.963
\$375,000 - \$399,999	5,079	5.628	69.986	1,967,921,194	6.506	53.468
\$400,000 - \$424,999	4,726	5.237	75.223	1,947,122,077	6.437	59.905
\$425,000 - \$449,999	4,081	4.522	79.745	1,783,998,138	5.898	65.803
\$450,000 - \$474,999	3,717	4.119	83.864	1,717,705,661	5.679	71.482
\$475,000 - \$499,999	3,038	3.366	87.230	1,479,914,279	4.892	76.374
\$500,000 and greater	<u>11,525</u>	<u>12.770</u>	100.000	<u>7,146,605,626</u>	<u>23.626</u>	100.000
Total	90,249	100.000%		\$30,249,018,635	100.000%	

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

Reassessments and Appeals of Assessed Value

State law allows for the appeal of a property's assessed value by property owners. Appeals may be based on Proposition 8 (1978) which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the State Constitution" herein.

Under State law, property owners in the District may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with a County assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values, adjusted for inflation, when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A of the State Constitution.

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

Proposition 8 reductions may also be unilaterally applied by the County Assessor.

The District can make no predictions as to the changes in assessed values within the boundaries of the District that might result from pending or future appeals of assessed valuation by taxpayers or temporary reductions in assessed valuation of property as allowed under the State Constitution. Any reduction in aggregate District assessed valuation will cause the tax rate necessary to repay the Bonds to increase accordingly. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Director of Finance against all taxing agencies receiving tax revenues, including the District.

Risk of Decline in Property Values

Property values could be reduced by factors beyond the District's control, including but not limited to an earthquake, drought, wildfire or a depressed real estate market due to general economic conditions in the County, the region, or the State. Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

Earthquake. The District is located in a seismically active region. While there are no known earthquake faults underlying the District, large quakes from distant faults such as those in the San Francisco Bay Area or east of the Sierra Nevada could cause significant damage to homes, businesses, and communities, especially in areas where water levels are high in soft soils that can settle unevenly during shaking. In August 2016, the 2014 Working Group on California Earthquake Probabilities (a collaborative effort of the United States Geological Survey, the California Geological Society and the Southern California Earthquake Center) issued a revised report that states there is a 76 percent chance that one or more earthquakes of magnitude 7.0 or larger will occur in Northern California before the year 2043.

Drought. In recent years, the State has experienced severe drought conditions. While the most recent period of severe statewide drought (2012 through 2016) adversely affected agriculture, the general economy of the State was not significantly affected. Relatively little of the property in the District is in agricultural use (see the table in “—Assessed Valuation of Property” herein), and assessed values show a net increase over the period of the drought. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

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

Proposition 19. Proposition 19, approved by voters of the State at the election held on November 3, 2020, is a State constitutional amendment that changes the manner of assessment of property when it is transferred between parents and children. Under prior law, reassessment was not triggered by such transfers, but Proposition 19 generally would result in a reassessment. The District cannot predict the impact Proposition 19 may have in the future on the value of taxable property within the District.

Other. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or

reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable, or religious purposes).

Tax Rates

The State Constitution permits the levy of an *ad valorem* property tax on taxable property not to exceed one percent of the property's full cash value, plus the amount necessary to make annual payments due on general obligation bonds or other indebtedness incurred prior to July 1, 1978, any bonded indebtedness for the acquisition or improvement of real property approved by a two-thirds majority of voters on or after July 1, 1978, and certain bonded indebtedness for school facilities approved by 55 percent of the voters. The County Director of Finance, in its capacity as auditor-controller, computes the additional rate of tax necessary to pay such scheduled debt service and presents the tax rates for all taxing jurisdictions in the County to the County Board, and directs the auditor-controller of any secondary county to place the tax on the secondary county's tax rolls.

The tax rate necessary to pay debt service in a given year largely depends on the net assessed value of taxable property in that year. The net assessed value of taxable property may be affected by several factors, such as a general market decline in property values, reclassification of property to a class exempt from taxation, such as property owned by federal, State and local agencies or property used for certain educational, hospital, charitable or religious purposes, or the destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, drought, toxic dumping, *etc.* See “—Risk of Decline in Property Tax Values” herein.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax on each parcel. The following table shows *ad valorem* property tax rates per \$100 of assessed value for the last five years in a typical tax rate area of the District (TRA 3-117). The fiscal year 2020-21 assessed valuation of TRA 3-117 is \$2,815,111,863, approximately 6.91 percent of the total assessed value of taxable property in the District.

**Typical Total Tax Rates per \$100 of Assessed Valuation
TRA 3-117
Elk Grove Unified School District**

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
General Tax Rate	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Elk Grove Unified School District	-	0.0373	0.0357	0.0349	0.0352
Los Rios Community College District	<u>0.0141</u>	<u>0.0130</u>	<u>0.0131</u>	<u>0.0232</u>	<u>0.0223</u>
Total Tax Rate	\$1.0141	\$1.0503	\$1.0488	\$1.0581	\$1.0575

Source: California Municipal Statistics, Inc.

The more property (by assessed value) that is owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and their ability or willingness to pay property taxes. In fiscal year 2020-21, no single taxpayer owned more than 0.57 percent of the total secured taxable property in the District.

The 20 taxpayers in the District with the greatest combined secured assessed valuation of taxable property on the fiscal year 2020-21 tax roll own property that comprises 3.75 percent of the local assessed valuation of secured property in the District. These taxpayers, ranked by aggregate assessed value of taxable property as shown on the fiscal year 2020-21 secured tax roll, and the amount of each owner's assessed valuation for all taxing jurisdictions within the boundaries of the District are shown in the following table.

Each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the list of largest taxpayers identified in the following table.

**Largest Taxpayers
Elk Grove Unified School District**

<u>Property Owner</u>	<u>2020-21 Primary Land Use</u>	<u>2020-21 Assessed Valuation</u>	<u>Percent of Total¹</u>
1. Apple Computer Inc.	Industrial	\$228,688,669	0.57%
2. Dignity Community Care	Hospital	110,933,928	0.28
3. Laguna Springs Corporate Center	Office Building	100,734,724	0.25
4. Wal Mart Real Estate Business Trust	Commercial	86,263,794	0.22
5. Mitsubishi Rayon Carbon Fiber & Composites	Industrial	80,020,885	0.20
6. Oakmont Properties II LP	Apartments	76,398,757	0.19
7. Siemens Mobility Inc.	Industrial	73,327,749	0.18
8. DS Properties 18 LP	Commercial	72,475,841	0.18
9. MG Landing at College Square Apartments	Apartments	61,383,600	0.15
10. Elk Grove Owner LP	Commercial	61,180,764	0.15
11. MG Bella Vista Apartments EKG LLC	Apartments	60,180,000	0.15
12. Wellquest Elk Grove LLC	Assisted Living Facility	56,838,535	0.14
13. PW Fund B LP	Industrial	56,727,814	0.14
14. Fountains Artisan LLC	Apartments	56,538,508	0.14
15. Pappas Laguna 2 LP	Commercial	54,468,553	0.14
16. 9130 Nolan Street LLC	Apartments	53,611,918	0.13
17. Norwalk Flallon LLC & Upland Terry LLC	Commercial	53,234,825	0.13
18. Vasari Apartments I and II LLC	Apartments	52,772,674	0.13
19. Ridge EG East LP	Commercial	50,482,477	0.13
20. BRE 8670 Younger Owner LLC	Industrial	<u>47,897,874</u>	<u>0.12</u>
Total		\$1,494,161,889	3.75%

¹Fiscal year 2020-21 local secured assessed valuation in the District is \$39,809,319,882.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Bonded Debt

Contained within the District's boundaries are numerous overlapping local entities providing public services which may have outstanding long-term obligations in the form of general obligation, lease revenue and special assessment bonds. Such obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the boundaries of the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The following table generally includes long-term obligations sold in the public credit markets by the public agencies listed. The first column in the table names each public agency which has outstanding debt as of February 1, 2021, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (not shown) produces the amount shown in the third column, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District. Property owners within the boundaries of the District may be subject to other special taxes and assessments levied by other taxing authorities providing services within the boundaries of the District. Such non-*ad valorem* special taxes and assessments (which are not levied to fund debt service) are not represented in the statement of direct and overlapping bonded debt.

Statement of Direct and Overlapping Bonded Debt (As of February 1, 2021)
Elk Grove Unified School District

2020-21 Assessed Valuation: \$40,728,895,048

	Percent Applicable	Debt as of February 1, 2021
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Los Rios Community College District	18.549%	\$76,975,568
Elk Grove Unified School District	100.000	176,850,000 ¹
Elk Grove Unified School District Community Facilities District No. 1	100.000	185,371,133 ²
City of Elk Grove Community Facilities Districts	100.000	220,065,000
City of Rancho Cordova Community Facilities Districts	100.000	81,345,000
Sacramento County Community Facilities District No. 2005-2 North Village Station No. 1	100.000	21,555,000
Sacramento County Community Facilities District No. 2014-2 North Village Station No. 2	100.000	13,900,000
City of Sacramento Community Facilities District No. 2005-01	100.000	10,275,000
Other Community Facilities Districts	100.000	20,800,285
Rancho Murieta Community Services District Community Facilities District No. 2014-1	100.000	5,565,000
Sacramento Area Flood Control District Consolidated Capital Assessment District	7.250	23,093,063
Southgate Recreation and Park Benefit Assessment District	84.001	5,061,060
California Statewide Communities Development Authority 1915 Act Bonds	60.977-100.000	<u>32,089,628</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$872,945,737
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	22.397%	\$31,169,325
Sacramento County Pension Obligation Bonds	22.397	159,642,468
Sacramento County Board of Education Certificates of Participation	22.397	793,974
Elk Grove Unified School District General Fund Obligations	100.000	11,770,000
City of Elk Grove Certificates of Participation	99.699	39,241,302
City of Rancho Cordova Certificates of Participation	17.876	2,432,030
City of Sacramento General Fund Obligations	8.213	48,060,012
Consumnes Community Services District Certificates of Participation	88.180	19,038,062
Recreation and Park Districts General Fund Obligations	11.426 & 84.001	2,839,863
Sacramento Metropolitan Fire District General Fund and Pension Obligation Bonds	16.275	<u>8,680,105</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$323,667,141
Less: Sacramento County supported obligations		3,343,293
City of Elk Grove supported obligations		8,628,948
City of Sacramento supported bonds		<u>34,657,133</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$277,037,767
GROSS COMBINED TOTAL DEBT		\$1,196,612,878 ³
NET COMBINED TOTAL DEBT		\$1,149,983,504

Ratios to 2020-21 Assessed Valuation:

Direct Debt (\$176,850,000)	0.43%
Total Direct and Overlapping Tax and Assessment Debt	2.14%
Combined Direct Debt (\$373,991,133)	0.92%
Gross Combined Total Debt	2.94%
Net Combined Total Debt	2.82%

¹Excludes the Bonds to be sold.

²Includes \$98,425,000 in certificates of participation for which the District intends to repay using special taxes levied by the Elk Grove Unified School District Community Facilities District No. 1.

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

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction assessed as of January 1, at which time the tax lien attaches. The County Director of Finance, in its capacity as tax collector, is presented with a tax roll created from the combined rolls of the County Assessor and the SBE. The County Director of Finance prepares and mails tax bills to taxpayers and collects the taxes.

Property taxes on the regular secured roll are due in two equal installments. The annual tax bill is mailed by November 1; the first installment is delinquent after December 10 and the second installment is delinquent after April 10. Delinquent taxes are subject to penalty of 10 percent and a \$15 cost. If taxes remain unpaid by July 1, the tax is deemed to be in default. After five years, the County generally has the power to sell tax-defaulted property that is not redeemed; proceeds from such sale are applied to the payment of the delinquent taxes.

Property taxes on the unsecured roll are due annually. The bills are mailed during July; taxes on the unsecured roll are due and, if unpaid, are delinquent on August 31, and thereafter subject to a 10 percent penalty and additional collection costs. Upon delinquency, the County may use the following collection methods: filing of liens, filing of summary judgments, seizure and sale of personal property, or seizure of State tax refunds or State lottery winnings.

The following table shows a five-year history of real property tax collections and delinquencies in the District.

Secured Tax Charges and Delinquencies Elk Grove Unified School District

<u>Fiscal Year</u>	<u>Secured Tax Charge¹</u>	<u>Amount Delinquent As of June 30</u>	<u>Percent Delinquent As of June 30</u>
2015-16	\$15,138,847	\$133,652	0.88%
2016-17	15,394,041	443,951	2.88
2017-18	15,599,189	455,088	2.92
2018-19	15,536,445	409,620	2.64
2019-20	15,422,602	152,507	0.99

<u>Fiscal Year</u>	<u>Secured Tax Charge²</u>	<u>Amount Delinquent As of June 30</u>	<u>Percent Delinquent As of June 30</u>
2017-18	\$12,224,679	\$76,151	0.62%
2018-19	12,482,453	79,380	0.64
2019-20	12,953,394	109,450	0.84

¹Elk Grove Unified School District CFD No.1 Mello-Roos Act bond special charge.

²Elk Grove Unified School District's general obligation bond levy.

Source: California Municipal Statistics, Inc.

As long as the Teeter Plan (as defined herein) remains in effect in the County, the District will be credited with the full amount of the secured tax levy for the Bonds no matter the delinquency rate within the boundaries of the District. See "— Alternative Method of Tax Apportionment" herein.

Alternative Method of Tax Apportionment

The County Board has approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") pursuant to the California Revenue and Taxation Code (the "Revenue and Taxation Code") Section 4701 *et seq.* The Teeter Plan guarantees distribution to each local agency in the County an amount equal to 100 percent of the *ad valorem* property taxes levied on their behalf on the secured roll within the County, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

The cash position of the County is protected by a special fund, known as the “Tax Loss Reserve Fund,” which accumulates moneys from interest and penalty collections. In any given fiscal year, when the amount in the County’s Tax Loss Reserve Fund exceeds a specified amount as prescribed by law, such excess amounts may be credited for the remainder of that fiscal year to the County’s general fund. Amounts required to be maintained in the Tax Loss Reserve Fund may be drawn on to the extent of the amount of uncollected taxes credited to each agency in advance of receipt.

The Teeter Plan is to remain in effect in the County unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year (which commences on July 1 for the County), the County Board receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The County Board may also, after holding a public hearing on the matter, discontinue the implementation of 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 three percent of the total of all taxes and assessments levied on the secured rolls in that agency.

If the Teeter Plan were discontinued in the County, only those secured property taxes actually collected in the County would be allocated to political subdivisions in the County, including the District. Further, the District’s tax revenues would be subject to taxpayer delinquencies; however, the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law. As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of secured property tax levies no matter the delinquency rate within the boundaries of the District.

Waiver of State Laws Relating to Penalties for Non-Payment of Property Taxes

Pursuant to Executive Order N-61-20 signed by the Governor of the State of California (the “Governor”) on May 6, 2020, to alleviate the impact of the COVID-19 outbreak on State property taxpayers, certain provisions of the Revenue and Taxation Code are suspended until May 6, 2021, to the extent such provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Such penalties, costs and interest shall be cancelled under the conditions provided for in Executive Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector, and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, state, or federal governmental response to the COVID-19 outbreak. The impacts the waiver of penalties, costs or interest on delinquent property taxes under the circumstances described in Executive Order N-61-20 have on property tax revenues are unknown at this time.

The property tax collection procedures described above are subject to amendment based on legislation or executive order, including, but not limited to, Executive Order N-61-20, which may be enacted by the State legislature or declared by the Governor from time to time. The District cannot predict changes in law or orders of State officials that might occur in the future, particularly with regard to actions that might be taken in an attempt to mitigate the impacts of the COVID-19 pandemic. See “—COVID-19 Pandemic” herein.

COVID-19 Pandemic

An outbreak of a respiratory disease caused by a new strain of coronavirus, COVID-19, was first detected in China in late 2019 and has subsequently spread globally. The World Health Organization declared the COVID-19 outbreak as a Public Health Emergency of International Concern on January 30, 2020, further characterizing the outbreak as a pandemic on March 11, 2020. As of March 12, 2021, the Center for Systems Science and Engineering at Johns Hopkins University reports there were more than 28.2 million confirmed cases of COVID-19 in the United States, of which more than 3.6 million were located in the State and 94,000 were located in the County.

Federal Actions. On March 13, 2020, the federal government declared a national emergency in response to the COVID-19 pandemic, making available more than \$50 billion in federal funds for disaster relief and assistance. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law, authorizing more than \$2 trillion to battle COVID-19 and its economic effects, including approximately \$31 billion for K–12 and higher education assistance and more than \$4 billion for childcare and early education programs.

On December 27, 2020, in order to provide extensions to certain benefits previously provided under the CARES Act as well as address the ongoing economic impact of the COVID-19 pandemic, the \$900 billion Coronavirus Response and Relief

Supplemental Appropriations Act (the “Coronavirus Relief Act”) was signed into law. The Coronavirus Relief Act provides approximately \$82 billion for education, \$54.3 billion of which is intended for K-12 schools.

On March 11, 2021, the American Rescue Plan Act of 2021 (“ARPA”) was signed into law, authorizing more than \$1.9 trillion to combat the pandemic and provide aid to those impacted by its economic effects. ARPA provides approximately \$170 billion for education, including \$125.4 billion for state K-12 education programs, the large majority of which will be distributed to local education agencies based on their relative share of Title I-A funding.

State and Local Actions. On March 4, 2020, the Governor declared a state of emergency in response to the COVID-19 pandemic. The Governor issued Executive Order N-26-20 on March 13, 2020, ensuring California public school districts retain State funding even in the event of physical closure. The order directed school districts to use those State dollars to fund distance learning and high quality educational opportunities, provide school meals, continue to pay employees, and, as practicable, arrange for the supervision for students during school hours.

On March 17, 2020, the Governor signed Senate Bill 89 (“SB 89”) appropriating \$500 million from the State general fund for any purpose related to the Governor’s March 4 emergency declaration. SB 89 allowed additional funds to be appropriated in \$50 million increments up to a total of not to exceed \$1 billion. The Governor also signed Senate Bill 117 (“SB 117”), which, among other items, provided that attendance during full school months from July 1, 2019, to February 29, 2020, inclusive, would be reported for apportionment purposes for fiscal year 2019-20 for school districts that complied with Executive Order N-26-20. SB 117 also held harmless school districts not meeting minimum instructional day and minute requirements during the academic year. Additionally, SB 117 appropriated \$100 million for local educational agencies to purchase protective equipment and supplies and labor related to cleaning school sites as a result of COVID-19, allocated to local education agencies on the basis of average daily attendance (“ADA”).

On March 19, 2020, the Governor issued Executive Order N-33-20 ordering all State residents to stay home except to get food, care for a relative, get necessary healthcare or go to an essential job. The shelter-in-place order went into effect immediately, thereby suspending in-person classroom instruction indefinitely throughout the State, including District schools. The State presented its Pandemic Resilience Roadmap, a four-stage plan for modifying Executive Order N-33-20 regarding shelter-in-place guidelines, on April 14, 2020.

On July 17, 2020, the Governor announced statewide restrictions on the reopening of K-12 schools and issued updated State guidelines and requirements regarding both in-person and distance learning. Consistent with these restrictions, the California Department of Public Health issued a framework for when and how K-12 schools should reopen for in-person instructions. The Governor’s plan focused on five key points: reopening schools based on local health data, strong mask requirements, physical distancing requirements, regular testing and contact tracing and rigorous distance learning. The California Department of Public Health released updated guidance for the safe re-opening of K-12 schools for in-person instruction on January 14, 2021. Under the updated guidance, all local education agencies must complete and post to their website a COVID-19 Safety Plan (a “CSP”) prior to reopening for in-person instruction, or, if they were already offering in-person instruction, they must post their CSP on their website by February 1, 2021.

On August 28, 2020, the Governor released an updated framework for reopening businesses and activities, the Blueprint for a Safer Economy (the “Blueprint”). The Blueprint assigns each of the State’s 58 counties into four color-coded tiers: purple (tier 1, widespread), red (tier 2, substantial), orange (tier 3, moderate) and yellow (tier 4, limited), based on the number of new daily cases of COVID-19 and the percentage of positive tests. Counties must remain in a tier for at least three weeks before advancing to the next tier. To move forward, a county must meet the next tier’s criteria for two consecutive weeks. If a county’s case rate and positivity rate fall into different tiers, the county remains in the stricter tier. Schools can reopen for limited in-person instruction once their county has been in the red tier (daily new cases of 4-7 per 100,000 people and 5-8 percent positive tests) for at least two weeks. Implementation of the Blueprint as part of a phased reopening depends on local conditions, including the level of COVID-19 infections and hospitalization rates for a minimum of 14 days, testing resources of the county, and preparedness of the county’s healthcare system. Schools in counties in the purple tier can reopen if the local health department provides a waiver. As of the date hereof, the County was assigned to the [purple] tier. For more information on the Blueprint, please refer to the State’s website at covid19.ca.gov/safer-economy. The District takes no responsibility for the continued accuracy of this Internet addresses or for the accuracy, completeness or timeliness of the information presented therein, and such information is not incorporated herein by such reference.

On March 5, 2021, the Governor signed Assembly Bill 86 (“AB 86”), providing \$6.6 billion in State funding to local education agencies for COVID-19 relief, including \$2.0 billion of in-person instruction grants to expedite the reopening schools and \$4.6 billion of expanded learning opportunity grants to address the pandemic’s impact on learning. The \$2.0

billion in-person instruction grants will be distributed to local education agencies in proportion to their local control funding formula (“LCFF”) entitlement. In order to receive full in-person instruction grants, local educational agencies must offer in-person instruction to students by April 1, with grants incrementally decreasing for each day after April 1 that the local education agency does not provide in-person instruction in accordance with grant requirements. AB 86 also identifies the requirements to offer in-person instruction as a condition of receiving the grant based on the color tiers in the Blueprint. Regarding the \$4.6 billion of expanded learning opportunity grants, local education agencies will receive \$1,000 for each homeless student enrolled, with the majority of the remaining amount distributed in proportion to a local education agency’s LCFF entitlement. The expanded learning opportunity grants may be used for various strategies to accelerate learning and address student needs, such as extended learning time, professional development, programs to address social-emotional learning, and access to school meals.

The District receives a significant portion of its revenues from State funds and local property taxes. The COVID-19 outbreak may result in a material change in the State’s financial position. Declines in State revenues as a consequence of the COVID-19 outbreak could result in a corresponding decline in revenues available for the District. See “FUNDING OF PUBLIC EDUCATION IN THE STATE” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District’s financial condition. See “THE DISTRICT—Impact of the COVID-19 Pandemic” herein.

Notwithstanding the impact that the COVID-19 outbreak may have on the economy in the State and the District’s financial condition, the Bonds are payable from the proceeds of an *ad valorem* property tax, approved by the voters within the boundaries of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak may have on the assessed value of real property or property tax collections by the County within the boundaries of the District.

SACRAMENTO COUNTY POOLED INVESTMENT FUND

This section provides a general description of the County Investment Policy and current portfolio holdings. The information set forth under this section relating to the Sacramento County Pooled Investment Fund has been obtained from the County Department of Finance and is believed to be reliable but is not guaranteed as to accuracy or completeness. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Sacramento, Office of the County Department of Finance, 700 H Street, Suite 1710, Sacramento, California 95814, telephone (916) 874-674.

The County Director of Finance manages the Sacramento County Pooled Investment Fund (the “County Pool”) in which certain funds of the County and certain funds of other participating entities are pooled and invested pending disbursement. General participants are those government agencies within the County, including the District, for which the County Director of Finance is statutorily designated as the custodian of such funds. The County Director of Finance is the *ex officio* treasurer of each of these participating entities, and such entities are legally required to deposit their cash receipts and revenues in the County Treasury. Under State law, withdrawals are allowed only to pay for expenses that have become due. The governing board of each school district and special district within the County may allow, by appropriate board resolution, certain withdrawals of non-operating funds for purposes of investing outside the County Treasury. Some districts have from time to time authorized the County Director of Finance to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements. Other local agencies, such as special districts and cities for which the County Director of Finance is not the statutorily designated fund custodian, may participate in the County Pool. Such participation is subject to the consent of the County Director of Finance and must be in accordance with State law.

Funds held in the County Pool are invested by the County Director of Finance in accordance with State law and the County Investment Policy, which is prepared by the County Director of Finance and approved by the County Board. A copy of the County Investment Policy approved by the County Board on December 8, 2020 is attached hereto as “APPENDIX D.” The County Investment Policy sets forth the investment objectives, in order of priority, safety of principal, liquidity, public trust, and maximum rate of return. In addition, the County Investment Policy describes the instruments eligible for inclusion in the County Pool and the limitations applicable to each type. A Sacramento County Treasury Oversight Committee reviews the County Investment Policy annually and monitors the County Pool’s compliance with State law and the County Investment

Policy. The County Director of Finance neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

The earned interest yield of the Sacramento County Pool for the quarter ended December 31, 2020 was 0.834 percent, with a weighted average maturity of 231 days. A summary description of the composition of the Sacramento County Pool from the quarterly investment report as of December 31, 2020 is provided in the following table.

Securities by Type as of December 31, 2020
Sacramento County Pooled Investment Fund

<u>Type</u>	<u>Interest Rate</u>	<u>Trading Yield</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Percent of Market Value</u>
Treasury Bills	0.089%	0.089%	\$175,000,000	\$174,945,416	\$174,980,000	3.76%
Variable Rates (Muni)	1.109	1.109	15,601,914	15,601,914	15,601,914	0.34
Federal Farm Credit Bonds (FFCB)	1.939	2.009	280,000,000	279,498,160	286,801,950	6.17
Federal Home Loan Banks	2.524	2.013	320,000,000	326,112,590	335,463,700	7.21
Federal National Mortgage Assoc.	1.772	1.903	120,000,000	119,258,600	122,509,400	2.63
FNMA Discount Notes	0.085	0.085	72,274,000	72,243,284	72,244,368	1.55
FHLB Discount Notes	0.103	0.103	302,975,000	302,838,520	302,924,511	6.52
FHLMC	1.377	1.218	30,000,000	30,224,700	31,042,000	0.67
Supranationals	2.176	2.315	520,000,000	517,299,000	538,207,400	11.58
Supranationals Discount Notes	0.100	0.100	50,000,000	49,982,778	49,998,500	1.08
Commercial Paper (Discount)	0.173	0.173	1,440,000,000	1,439,072,332	1,439,692,319	30.96
Certificates of Deposits/Thrift Notes	0.176	0.175	1,125,000,000	1,125,004,260	1,125,149,656	24.20
Certificates of Deposits 365/366	0.670	0.670	80,000,000	80,000,000	79,965,044	1.72
Passbook Accounts	<u>0.540</u>	<u>0.540</u>	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>	<u>1.61</u>
Sacramento County Pool Total	0.729%	0.715%	\$4,605,850,914	\$4,607,081,554	\$4,649,580,763	100.00%

Source: County of Sacramento Department of Finance.

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

AREA ECONOMIC PROFILE

The information in this section concerning the economy of the County and the Cities is provided as supplementary information only and is not intended to be an indication of security for the Bonds. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

General Information

The County, incorporated in 1850, is located in the central region of the State approximately 75 miles east of the City of San Francisco, encompassing approximately 994 square miles of the northern section of the Central Valley, the State's prime agricultural region. The County extends to the low delta lands in its southern portion, with direct access to the San Francisco

Bay, and east to the Sierra Nevada foothills. The County has seven incorporated cities, the largest of which, the City of Sacramento, is the seat of government for the State. Based on data compiled by CoreLogic, the median sale price of a single-family home in the County was \$423,750 in January 2021, an increase of approximately 13.0 percent from \$375,000 in January 2020.

The District operates schools in three cities within the County: the City of Elk Grove, the City of Rancho Cordova and the City of Sacramento. The City of Elk Grove, incorporated in 2000, is comprised of approximately 43 square miles located in the central portion of the County. The City of Rancho Cordova, incorporated in 2003, is comprised of approximately 34 square miles located in the eastern portion of the County. The City of Sacramento, incorporated in 1850, is comprised of approximately 98 square miles located in the western portion of the County. Based on data compiled by CoreLogic, the median sale price of a single-family home in the City of Elk Grove was \$520,500 in January 2021, an increase of approximately 10.6 percent from \$470,500 in January 2020; the median home sale price of a single-family home in the City of Rancho Cordova was \$465,500 in January 2021, an increase of approximately 4.8 percent from \$435,500 in January 2020; and the median home sale price of a single-family home in the City of Sacramento was \$390,000 in January 2021, an increase of approximately 15.0 percent from \$339,000 in January 2020.

Population

The following table displays estimated population as of January 1 for the past five years for which data is available for the Cities, County and State.

Historical Population
City of Elk Grove, City of Sacramento, City of Rancho Cordova, County of Sacramento and State of California

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
City of Elk Grove	167,395	170,103	171,774	173,170	176,154
City of Rancho Cordova	72,749	74,492	75,937	77,438	78,381
City of Sacramento	487,455	492,858	498,563	505,230	510,931
County of Sacramento	1,496,385	1,512,721	1,527,132	1,541,301	1,555,365
State of California	39,131,307	39,398,702	39,586,646	39,695,376	39,782,870

Source: State Department of Finance.

Personal Income

Total personal income includes income from all sources including net earnings, dividends, interest and rent, and personal current transfer receipts received by residents in the region. *Per capita* personal income (“PCPI”) was \$55,266 in the County in 2019, an increase of 4.2 percent from 2018 levels, compared to an increase of 4.5 percent statewide and 3.5 percent nationally. The following table shows PCPI for the County as well as for the State and the United States for the past five years for which data is available.

***Per Capita* Personal Income**
County of Sacramento, State of California and United States

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
County of Sacramento	47,946	49,187	50,717	53,023	55,266
State of California	55,833	58,048	60,549	63,720	66,619
United States	49,019	50,015	52,118	54,606	56,490

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

Labor Force and Employment

The following table contains a summary of the City of Elk Grove's historical unemployment data for the past four calendar years and for the most recent month available, not seasonally adjusted.

Historical Unemployment City of Elk Grove

	<u>Annual 2017</u>	<u>Annual 2018</u>	<u>Annual 2019</u>	<u>Annual 2020¹</u>	<u>January 2021¹</u>
Total Labor Force	81,200	82,200	83,100	82,200	82,300
Number of Employed	78,100	79,500	80,500	75,600	76,900
Number of Unemployed	3,200	2,700	2,600	6,600	5,400
Unemployment Rate	3.9%	3.3%	3.1%	8.1%	6.5%

¹Preliminary.

Source: State Employment Development Department.

The following table contains a summary of the City of Rancho Cordova's historical unemployment data for the past four calendar years and for the most recent month available, not seasonally adjusted.

Historical Unemployment City of Rancho Cordova

	<u>Annual 2017</u>	<u>Annual 2018</u>	<u>Annual 2019</u>	<u>Annual 2020¹</u>	<u>January 2021¹</u>
Total Labor Force	34,400	35,000	35,400	35,000	35,200
Number of Employed	32,800	33,600	34,100	31,800	32,400
Number of Unemployed	1,600	1,400	1,300	3,200	2,800
Unemployment Rate	4.8%	3.9%	3.7%	9.2%	7.9%

¹Preliminary.

Source: State Employment Development Department.

The following table contains a summary of the City of Sacramento's historical unemployment data for the past four calendar years and for the most recent month available, not seasonally adjusted.

Historical Unemployment City of Sacramento

	<u>Annual 2017</u>	<u>Annual 2018</u>	<u>Annual 2019</u>	<u>Annual 2020¹</u>	<u>January 2021¹</u>
Total Labor Force	230,700	234,700	237,200	236,900	238,600
Number of Employed	219,700	225,400	228,300	214,000	217,900
Number of Unemployed	11,000	9,300	8,900	22,800	20,600
Unemployment Rate	4.8%	4.0%	3.7%	9.6%	8.7%

¹Preliminary.

Source: State Employment Development Department.

The following table contains a summary of the County's historical unemployment data for the past four calendar years and for the most recent month available, not seasonally adjusted.

**Historical Unemployment
County of Sacramento**

	Annual <u>2017</u>	Annual <u>2018</u>	Annual <u>2019</u>	Annual <u>2020</u>	January <u>2021</u> ¹
Total Labor Force	697,300	705,000	712,400	707,200	711,200
Number of Employed	664,800	677,500	686,300	641,600	653,300
Number of Unemployed	32,500	27,400	26,100	65,600	57,900
Unemployment Rate	4.7%	3.9%	3.7%	9.3%	8.1%

¹Preliminary.

Source: State Employment Development Department.

Employment by Industry

The following table shows labor patterns by type of industry from calendar years 2015 through 2019 by annual average, not seasonally adjusted, in the Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area.

Historical Employment by Industry Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area¹

<u>Type of Industry</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total, All Industries	621,300	644,000	648,300	665,500	677,600
Total Farm	2,700	2,200	3,200	2,600	2,500
Total Nonfarm	618,600	641,800	645,000	662,800	675,000
Goods Producing	51,900	54,300	56,700	60,000	62,600
Mining and Logging	100	200	100	200	200
Construction	31,000	32,900	35,500	38,600	40,900
Manufacturing	20,800	21,100	21,100	21,200	21,500
Durable Goods	14,200	14,000	13,800	13,600	14,100
Nondurable Goods	6,700	7,200	7,300	7,500	7,400
Service Providing	566,700	587,500	588,300	602,900	612,400
Trade, Transportation & Utilities	90,800	94,100	96,100	99,400	99,700
Wholesale Trade	15,100	15,700	16,300	17,800	17,300
Retail Trade	62,100	64,100	64,600	64,300	63,400
Transportation, Warehousing & Utilities	13,600	14,400	15,200	17,400	19,000
Information	10,000	9,700	8,500	8,400	7,900
Financial Activities	32,700	33,200	33,400	33,200	33,200
Finance & Insurance	24,400	24,500	24,200	23,800	23,700
Real Estate & Rental & Leasing	8,300	8,700	9,100	9,400	9,600
Professional & Business Services	88,400	94,400	94,900	96,000	96,500
Professional, Scientific & Technical Services	39,200	40,400	40,300	40,700	42,800
Management of Companies & Enterprises	7,600	8,000	9,200	10,000	9,900
Administrative & Support & Waste Services	41,600	46,000	45,400	45,300	43,800
Educational & Health Services	102,000	109,500	106,800	112,200	116,300
Leisure & Hospitality	58,700	60,800	62,500	65,200	67,300
Arts, Entertainment & Recreation	7,600	8,300	8,300	8,600	9,100
Accommodation & Food Services	51,100	52,600	54,200	56,600	58,200
Other Services	20,800	21,200	22,400	23,300	23,700
Government	163,300	164,700	163,800	165,300	167,900
Federal Government	10,000	10,200	10,400	10,400	10,500
State Government	87,900	88,100	89,400	90,800	92,300
Local Government	65,400	66,400	64,000	64,100	65,100

Figures may not foot due to rounding.

¹The Sacramento-Roseville-Arden Arcade Metropolitan Statistical Area is comprised of the County of Sacramento, the County of El Dorado, the County of Placer and the County of Yolo.

Source: State Employment Development Department.

Major Employers

The following table provides a list of 10 principal employers, corresponding number of employees and percent of total employment in the City of Elk Grove for fiscal year 2019-20.

Principal Employers City of Elk Grove

<u>Rank</u>	<u>Company or Organization</u>	<u>Number of Employees</u>	<u>Percent of Total Employment</u>
1	Apple Computer	5,000	6.20%
2	Elk Grove Unified School District	3,884	4.81
3	CA Correctional Health Care Services	1,371	1.70
4	Walmart (3 locations)	596	0.74
5	Kaiser Permanente Medical Center (2 locations)	530	0.66
6	Raley's/Bel Air Markets (4 locations)	442	0.55
7	City of Elk Grove	375	0.46
8	Consumnes Community Services District	343	0.43
9	Alldata LLC	300	0.37
10	Safeway (2 locations)	<u>265</u>	<u>0.33</u>
Total		13,106	16.24%

Source: City of Elk Grove, Comprehensive Annual Financial Report for the Year Ended June 30, 2020.

The following table provides a list of 10 principal employers, corresponding number of employees and percent of total employment in the City of Rancho Cordova for fiscal year 2019-20.

Principal Employers City of Rancho Cordova

<u>Rank</u>	<u>Company or Organization</u>	<u>Number of Employees</u>	<u>Percent of Total Employment</u>
1	State of California	3,000	5.45%
2	Centene	2,100	3.82
3	Delta Dental	1,600	2.91
4	Sacramento County Office of Edu.	1,300	2.36
5	Franklin Templeton	1,000	1.82
6	VSP Global	1,000	1.82
7	Foundation Health Special Svc	900	1.64
8	J P Aerospace	709	1.29
9	Mather Aerospace Modelers Inc.	709	1.29
10	Dignity Health	600	1.09

Source: City of Rancho Cordova, Comprehensive Annual Financial Report for the Year Ended June 30, 2020.

The following table provides a list of 10 principal employers, corresponding number of employees and percent of total employment in the City of Sacramento for fiscal year 2019-20.

**Principal Employers
City of Sacramento**

<u>Rank</u>	<u>Company or Organization</u>	<u>Number of Employees¹</u>	<u>Percent of Total Employment²</u>
1	State of California	77,172	12.42%
2	Kaiser Permanente	15,585	2.51
3	UC Davis Health System	14,510	2.34
4	Sacramento County	12,360	1.99
5	Sutter Health	10,764	1.73
6	US Government	10,559	1.70
7	Dignity Health	7,871	1.27
8	Intel Corporation	6,200	1.00
9	Elk Grove Unified School District	6,164	0.99
10	San Juan Unified School District	5,350	0.86
11	Sacramento City Unified School District	5,000	0.80

¹Ranked by number of employees in full-time equivalents.

²Percentage of total employment is calculated based on Sacramento County's total employment force of 621,200 per Employment Development Department website in July 2020.

Source: City of Sacramento, Comprehensive Annual Financial Report for the Year Ended June 30, 2020.

The following table provides a list of the 10 private-sector employers, corresponding number of employees and percent of total employment in the County for fiscal year 2019-20.

**Major Employers (Private-Sector)
County of Sacramento**

<u>Rank</u>	<u>Company or Organization</u>	<u>Number of Employees</u>	<u>Percent of Total Employment</u>
1	Kaiser Permanente	15,585	2.27%
2	UC Davis Health System	14,510	2.11
3	Sutter / California Health Services	10,764	1.57
4	Dignity / Mercy Healthcare	7,871	1.15
5	Intel Corporation	6,200	0.90
6	Amazon – Sacramento Fulfillment Center	4,500	0.66
7	Raley's Inc. / Bel Air	3,500	0.51
8	Health Net of California Inc.	3,227	0.47
9	VSP Global	2,429	0.35
10	Safeway	1,878	0.27
Total		70,464	10.26%

Source: County of Sacramento, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020.

Commercial Activity

Total taxable sales during calendar year 2019 in the City of Elk Grove were \$2,569,923,480, an 8.6 percent increase from total taxable sales of \$2,366,433,352 during calendar year 2018.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the City of Elk Grove for the past five calendar years for which data is available are presented in the following table.

Taxable Retail Sales City of Elk Grove

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax Permits	2,654	2,747	2,789	2,933	3,148
Taxable Sales (000's)	\$2,019,406	\$2,158,382	\$2,324,850	\$2,366,433	\$2,569,923

Source: California Department of Tax and Fee Administration.

Total taxable sales during calendar year 2019 in the City of Rancho Cordova were \$1,682,310,162, a 3.9 percent increase from total taxable sales of \$1,619,685,172 during calendar year 2018.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the City of Rancho Cordova for the past five calendar years for which data is available are presented in the following table.

Taxable Retail Sales City of Rancho Cordova

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax Permits	2,028	2,076	2,169	2,345	2,487
Taxable Sales (000's)	\$1,510,774	\$1,528,110	\$1,540,293	\$1,619,685	\$1,682,310

Source: California Department of Tax and Fee Administration.

Total taxable sales during calendar year 2019 in the City of Sacramento were \$7,463,633,682, a 3.8 percent increase from total taxable sales of \$7,157,368,711 during calendar year 2018.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the City of Sacramento for the past five calendar years for which data is available are presented in the following table.

Taxable Retail Sales City of Sacramento

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax Permits	13,164	14,068	14,258	15,421	15,970
Taxable Sales (000's)	\$6,220,369	\$6,482,931	\$6,792,197	\$7,157,369	\$7,463,634

Source: California Department of Tax and Fee Administration.

Total taxable sales during calendar year 2019 in the County were \$26,836,365,483, a 5.5 percent increase from the total taxable sales of \$25,443,669,264 during calendar year 2018.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the County for the past five calendar years for which data is available are presented in the following table.

**Taxable Retail Sales
County of Sacramento**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Sales Tax Permits	35,584	36,800	37,317	39,066	40,858
Taxable Sales (000's)	\$22,218,348	\$23,368,174	\$24,610,617	\$25,443,669	\$26,836,365

Source: California Department of Tax and Fee Administration.

Construction Activity

Estimated new privately-owned residential housing units authorized by building permits and total construction costs in the County for the past five calendar years for which data is available are shown in the following table.

**New Residential Building Permits
County of Sacramento**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Single-Family Residential Units	2,261	2,681	3,159	3,578	3,897
Multi-Family Residential Units	<u>749</u>	<u>669</u>	<u>1,669</u>	<u>1,089</u>	<u>1,691</u>
Total New Building Permits	3,010	3,350	4,828	4,667	5,588
Total Construction Costs (000's)	\$711,956,461	\$808,875,635	\$1,115,114,693	\$1,078,576,491	\$1,328,332,690

Source: U.S. Bureau of the Census, Building Permit Estimates.

THE DISTRICT

It should not be inferred from the inclusion of the information in this section concerning the operations of the District and its finances that the principal of or interest on the Bonds is payable from the General Fund. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

All tables in this section "THE DISTRICT" are from the District unless a source is otherwise indicated.

General Information

The District, a political subdivision of the State, was established in 1959. The District encompasses approximately 320 square miles in the central portion of the County. The District serves a population of approximately 342,000 people residing in the City of Elk Grove, the City of Rancho Cordova, and the City of Sacramento as well as unincorporated areas of the County.

The District provides education to approximately 62,900 students in transitional kindergarten through twelfth grade as well as students in adult education. The District operates 42 elementary schools, nine middle schools, nine comprehensive high schools, three continuation schools, one special education program, one independent study program, one dependent charter school, and one virtual online school, as well as an adult education program and an adult career training center.

The District Board of Trustees and Key Administrative Personnel

The District Board governs all activities related to public education within the jurisdiction of the District. The District Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations and accountability for all fiscal matters relating to the District.

The District Board consists of seven members. Each member of the District Board resides in one of seven prescribed areas and is elected by the public at large for a four-year term of office. Elections for the District Board are held every two years, alternating between two and three positions available. A president of the District Board is elected by the members each year.

The members of the District Board, together with the area they serve, their office and the date their current term expires, are set forth in the following table.

**Board of Trustees
Elk Grove Unified School District**

<u>Name</u>	<u>Area</u>	<u>Title</u>	<u>Term Expires</u>
Beth Albiani	Area 5	Board President	December 2022
Crystal Martinez-Alire, Ed.D.	Area 2	Board Clerk	December 2022
Nancy Chaires Espinoza	Area 6	Trustee	December 2024
Carmine S. Forcina	Area 7	Trustee	December 2024
Anthony “Tony” Perez	Area 1	Trustee	December 2024
Sean J. Yang	Area 3	Trustee	December 2024
Gina Jamerson	Area 4	Trustee	December 2022

The Superintendent of the District is appointed by and reports to the District Board. The Superintendent is responsible for managing the District’s day-to-day operations and supervising the work of other key District administrators. The current members of the District’s administration and positions held are set forth on page “iv” of this Official Statement.

Enrollment

Student enrollment determines to a large extent the amount of funding a State public school district receives for program, facilities and staff needs. ADA is a measurement of the number of pupils attending District classes. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs. The ADA as of the last day of the last full attendance month concluding prior to April 15 (“P-2 ADA”) is used by the State as the basis for State apportionments. SB 117 provided that for school districts that complied with State requirements, only attendance during full school months from July 1, 2019 to and including February 29, 2020, was reported for apportionment purposes for fiscal year 2019-20. In addition, the State budget for fiscal year 2020-21 (the “2020-21 State Budget”) provides that ADA for fiscal year 2020-21 will be based on the 2019-20 year. See “SECURITY AND SOURCE OF PAYMENT—COVID-19 Pandemic” and “FUNDING OF PUBLIC EDUCATION IN THE STATE—The 2020-21 State Budget” herein.

Set forth in the following table is the historical and current fiscal year estimated P-2 ADA for the District.

**Average Daily Attendance
Elk Grove Unified School District**

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u> ²
Total P-2 ADA ¹	59,496	59,521	59,790	59,859	60,126	60,769	60,766

¹Excludes charter school ADA.

²Estimated as of the fiscal year 2020-21 second interim report.

Charter Schools

There are three charter schools operating within the District: Elk Grove Charter School, The California Montessori Project–Elk Grove Campus and Sacramento Academic and Vocational Academy. Elk Grove Charter School, serving seventh through twelfth grades with an enrollment of 279 students in fiscal year 2019-20, is a fiscally dependent charter school operated by the District with its financial activities included in the District’s financial statements. See “APPENDIX A” attached hereto. The California Montessori Project–Elk Grove Campus serves kindergarten through eighth grade with an enrollment of 519 students in fiscal year 2019-20. Sacramento Academic and Vocational Academy serves ninth through twelfth grades with an enrollment of 301 students in fiscal year 2019-20. Both The California Montessori Project–Elk Grove Campus and Sacramento Academic and Vocational Academy are fiscally independent from the District; their financial activities are not included in the District’s financial statements.

Charter schools can adversely affect school district funding, either by reducing funded enrollment at the school district or, for community-funded districts, by increasing the in-lieu property tax transfer. However, certain per-pupil expenditures of a school district also decrease based upon the number of students enrolled in charter schools. Pursuant to Proposition 39, school districts are required to provide facilities reasonably equivalent to those provided to regular district students for charter schools having a projected average daily attendance of at least 80 or more students from that district.

Employee Relations

State law provides that employees of public school districts in the State are to be divided into appropriate bargaining units which then may be represented by an exclusive bargaining agent. The District has six recognized bargaining agents for its employees. The Elk Grove Education Association (“EGEA”) represents certain non-management certificated District staff. The Psychologists and Social Workers Association (“PSWA”) represents certain psychologists and social workers in the District. The California School Employees’ Association, Chapter #831 (“CSEA”) represents instructional assistants and related positions in the District. The Amalgamated Transit Union, Local #256 (“ATU”) represents the District’s transportation personnel. The Federation of State, County and Municipal Employees, Local #258 (“AFSCME”) represents the District’s non-management classified employees. The National Union of Healthcare Workers (“NUHW”) represents the District’s non-management classified healthcare personnel.

Set forth in the following table are the District's bargaining units, number of full-time equivalents ("FTEs") budgeted for fiscal year 2020-21 as of the second interim report, and contract status.

**Bargaining Units, Number of Employees and Contract Status
Elk Grove Unified School District**

<u>Bargaining Unit</u>	<u>Full-Time Equivalents</u>	<u>Contract Status</u>
Certificated:		
EGEA	3,454	Memorandum of Understanding reached for fiscal year 2020-21
PSWA	<u>76</u>	Memorandum of Understanding reached for fiscal year 2020-21
Total Certificated	3,530	
Classified:		
AFSCME	1,154	Memorandum of Understanding reached for fiscal year 2020-21
ATU	244	Memorandum of Understanding reached for fiscal year 2020-21
CSEA	1,058	Memorandum of Understanding reached for fiscal year 2020-21
NUHW	<u>52</u>	Memorandum of Understanding reached for fiscal year 2020-21
Total Classified	2,508	

The District has an additional 550 management and confidential FTEs not represented by a bargaining unit budgeted for fiscal year 2020-21 as of the second interim report.

Impact of the COVID-19 Pandemic

As a result of the COVID-19 pandemic, the District closed its schools and transitioned to distance learning in spring 2020. Pursuant to SB 98 and SB 117, the District received LCFF funding in fiscal year 2019-20 based on its ADA through February 29, 2020, and was held harmless for not meeting minimum instructional day and minute requirements during the academic year. In addition to SB 98 and SB 117, existing State law also allows the District to apply for a waiver to hold them harmless from the loss of LCFF funding based on attendance and State instructional time penalties when they are forced to close schools due to emergency conditions.

For fiscal year 2020-21, ADA for LCFF funding purposes is based on the 2019-20 year, and local educational agencies, including the District, are exempted from the annual minimum instructional minutes requirement. While minimum daily instructional minutes and minimum instructional day requirements are maintained, they may be met through a combination of in-person and distance learning instruction. See "FUNDING OF PUBLIC EDUCATION IN THE STATE—The 2020-21 State Budget" herein.

The District began the 2020-21 school year under a distance learning format, subsequently bringing back to the classroom specialized targeted instruction as well as after school programs in fall 2020. The District plans to begin an "in-person concurrent" model of education as soon as March 2021, providing students with the option to access the same technology-based instruction provided to distance learning students while in-person in the classroom, consistent with AB 86, contingent upon the County returning to a tier that allows seventh through twelfth grade students to return to the classroom. The District is unable to predict the cost of implementing the State's guidelines to reopen school campuses, whether new proposals will be enacted or in what form they may take, or whether any new requirements related to reducing the spread of COVID-19 will materially impact their finances or operations.

The District has been allocated emergency funding of approximately \$58 million from the CARES Act moneys as well as an additional \$59 million from the Coronavirus Relief Act to address COVID-19 related expenditures. The District expects to receive additional COVID-19 related funding under ARPA and AB 86, although the amount and timing of such funds remains unclear.

The District receives a significant portion of its revenues from State funds and local property taxes. The COVID-19 outbreak may result in a material change in the State's financial position. Declines in State revenues as a consequence of the COVID-19 outbreak could result in a corresponding decline in revenues available for the District. See "FUNDING OF PUBLIC

EDUCATION IN THE STATE” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District’s financial condition. See “SECURITY AND SOURCE OF PAYMENT—COVID-19 Pandemic” herein.

Pension Plans

All full-time employees of the District, as well as certain part-time employees, are eligible to participate under defined benefit retirement plans maintained by agencies of the State. Qualified certificated employees are eligible to participate in the cost-sharing multiple-employer State Teachers’ Retirement System (“STRS”). Qualified classified employees are eligible to participate in the cost-sharing multiple-employer Public Employees’ Retirement Fund of the Public Employees’ Retirement System (“PERS”), which acts as a common investment and administrative agent for participating public entities within the State.

The District accounts for its pension costs and obligations pursuant to *Governmental Accounting Standards Board* (“GASB”) *Statement No. 67, Financial Reporting for Pension Plans* (“GASB 67”) and *Statement No. 68, Accounting and Financial Reporting for Pensions* (“GASB 68”). GASB 68 requires an employer that provides a defined benefit pension, such as the District, to recognize and report its long-term obligation for pension benefits as a liability as it is earned by employees. See “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2020” attached hereto.

STRS—Description and Contributions. STRS operates under the Education Code sections commonly known as the State Teachers’ Retirement Law. Membership is mandatory for all certificated employees of State public schools meeting eligibility requirements. STRS provides retirement, disability and death benefits to beneficiaries. Benefits are based on members’ hire date, final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

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

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25 percent of eligible salary expenditures to the STRS Defined Benefit Program, while participants contributed 8.0 percent of their respective salaries. On June 24, 2014, former Governor Brown signed AB 1469 (“AB 1469”) into law as a part of the State’s fiscal year 2014-15 budget. AB 1469 sought to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit Program before July 1, 2014 (the “2014 Liability”), within 32 years, by increasing member, K-14 school district and State contributions to STRS. Commencing on July 1, 2014, the employee contribution rate increased over a three-year phase-in period. Pursuant to the California Public Employees’ Pension Reform Act of 2013, the contribution rates for members hired after January 1, 2013 will be adjusted if the normal cost increases by more than one percent since the last time the member contribution was set. The following table sets forth STRS member contribution rates for the past six years and the current year.

**Member Contribution Rates
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>STRS Members Hired Prior to January 1, 2013</u>	<u>STRS Members Hired On or after January 1, 2013</u>
July 1, 2014	8.150%	8.150%
July 1, 2015	9.200	8.560
July 1, 2016	10.250	9.205
July 1, 2017	10.250	9.205
July 1, 2018	10.250	10.205
July 1, 2019	10.250	10.205
July 1, 2020	10.250	10.205

Sources: AB 1469 and STRS.

Pursuant to AB 1469, K-14 school districts' contribution rates were scheduled to increase over a seven-year phase in period. However, the State budget for fiscal year 2019-20 (the "2019-20 State Budget") and the 2020-21 State Budget provided supplemental payments by the State to STRS to reduce the required contributions by school districts. Set forth in the following table are school districts' STRS contribution rates as enacted in AB 1469 as well as the contribution rates after consideration of the payments made by the State on behalf of school districts in the 2019-20 State Budget and the 2020-21 State Budget.

**Employer Contribution Rates¹
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>AB 1469 Enacted STRS Contribution Rate</u>	<u>Actual STRS Contribution Rate</u>
July 1, 2014	8.88%	8.88%
July 1, 2015	10.73	10.73
July 1, 2016	12.58	12.58
July 1, 2017	14.43	14.43
July 1, 2018	16.28	16.28
July 1, 2019	18.13	17.10
July 1, 2020	19.10	16.15

¹Percentage of eligible salary expenditures to be contributed.

Sources: AB 1469, the 2019-20 State Budget and the 2020-21 State Budget.

Based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter, the STRS Teachers' Retirement Board (the "STRS Board") is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than one percent of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25 percent. In addition to the increased contribution rates discussed above, AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with the report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

The State also contributes to STRS, currently in an amount equal to 8.328 percent of covered STRS member payroll for fiscal year 2020-21. The State's contribution reflects a base contribution rate of 2.017 percent plus a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. In addition, the State is currently required to make an annual general fund contribution

up to 2.5 percent of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the “SBPA”), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85 percent of the purchasing power of their initial allowance.

The District’s actual STRS contributions for fiscal years 2011-12 through 2019-20 and budgeted STRS contributions for fiscal year 2020-21 as of the second interim report are set forth in the following table.

**STRS Employer Contributions
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contribution¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2011-12	8.25%	\$18,379,420	\$512,471,476	3.59%
2012-13	8.25	20,132,770	544,548,723	3.70
2013-14	8.25	20,948,245	570,644,193	3.67
2014-15	8.88	23,693,748	646,629,245	3.66
2015-16	10.73	30,556,787	673,721,922	4.54
2016-17	12.58	37,357,344	760,859,555	4.91
2017-18	14.43	43,589,645	795,875,656	5.48
2018-19	16.28	51,091,114	860,781,957	5.94
2019-20	17.10	53,376,320	877,662,780	6.08
2020-21	16.15	51,961,552 ²	1,005,723,358 ²	5.17 ²

¹In each instance equal to 100 percent of the required contribution.

²Budgeted as of the second interim report.

PERS—Description and Contributions. All full-time classified employees of the District as well as certain part-time classified employees participate in PERS, which provides retirement and disability benefits as well as death benefits to plan members and beneficiaries. Benefits are based on members’ hire date, years of service credit, a benefit factor and the member’s final compensation.

Pursuant to Government Code Section 20840 *et seq.*, PERS is authorized to create risk pools for public agencies, combining assets and liabilities across employers in large risk-sharing pools to help reduce the large fluctuations in the employer’s contribution rate caused by unexpected demographic events. The “Schools Pool” provides identical retirement benefits to nearly all classified school employees in the State.

Members in the PERS Schools Pool hired on or before December 31, 2012, with five years of total service are eligible to retire at age 55 with benefits equal to 2.0 percent of final compensation for each year of service credit. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 62 with benefits equal to 2.0 percent of final compensation for each year of service credit. All members in the PERS Schools Pool are eligible for non-duty disability benefits after five years of service. Active plan members with an enrollment date prior to January 1, 2013 are required to contribute 7.0 percent of their salary. Active plan members with an enrollment date on or after January 1, 2013 are required to contribute the greater of 50 percent of normal costs or 6.0 percent of their salary—for fiscal year 2020-21 their contribution rate is also 7.0 percent.

State law requires that the PERS employer contribution rate be determined on an annual basis through an actuarial valuation process. Each employer rate plan’s actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan’s allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of the employee.

The District's actual PERS contributions for fiscal years 2011-12 through 2019-20 and budgeted PERS contributions for fiscal year 2020-21 as of the second interim report are set forth in the following table.

**PERS Employer Contributions
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contribution¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2011-12	10.923%	\$6,812,754	\$512,471,476	1.33%
2012-13	11.417	7,551,268	544,548,723	1.39
2013-14	11.442	8,341,075	570,644,193	1.46
2014-15	11.771	9,274,354	646,629,245	1.43
2015-16	11.847	10,085,627	673,721,922	1.50
2016-17	13.888	12,804,434	760,859,555	1.68
2017-18	15.531	15,176,778	795,875,656	1.91
2018-19	18.062	18,625,808	860,781,957	2.16
2019-20	19.721	21,061,415	877,662,780	2.40
2020-21 ³	20.700 ³	23,374,428 ²	1,005,723,358 ²	2.32

¹In each instance equal to 100 percent of the required contribution.

²Budgeted as of the second interim report.

³The 2020-21 State Budget provides supplemental payments to the PERS Schools Pool to reduce employer contribution rates for fiscal year 2020-21 from 22.68 percent to 20.700 percent.

Unfunded Liabilities and Pension Expense Reporting. Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these liabilities will vary depending on actuarial assumptions, returns on investment, salary scales and participant contributions. The actuarial funding method used in the STRS actuarial valuation as of June 30, 2019 is the entry age normal cost method, and assumes, among other things, a 7.0 percent investment rate of return, 3.0 percent interest on member accounts, projected 2.75 percent inflation, and projected payroll growth of 3.5 percent.

The following table shows the statewide funding progress of the STRS plan for the previous nine years.

**Funding Progress
California State Teachers' Retirement System (STRS)¹**

<u>Actuarial Valuation Date as of June 30</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2011	\$143,930	\$208,405	\$64,475	69%	\$26,592	242%
2012	144,232	215,189	70,957	67	26,404	269
2013	148,614	222,281	73,667	67	26,483	278
2014	158,495	231,213	72,718	69	26,398	275
2015	165,553	241,753	76,200	69	28,640	266
2016	169,976	266,704	96,728	64	30,324	319
2017	179,689	286,950	107,261	63	31,961	336
2018	190,451	297,603	107,152	64	32,613	329
2019	205,016	310,719	105,703	66	33,679	314

¹Dollars in millions.

Sources: California State Teachers' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2020; California State Teachers' Retirement System, Defined Benefit Program Actuarial Valuation for Fiscal Year Ended June 30, 2019.

The District's proportionate share of the State STRS net pension liability as reported in its audited financial statements for fiscal years 2014-15, the first year for which the data was provided, through 2019-20 are set forth in the following table.

**Proportionate Share of the Net Pension Liability—STRS
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>Proportion of Statewide Net Pension Liability</u>	<u>Proportionate Share of Statewide Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as Percentage of Total Pension Liability</u>
2014-15	0.575%	\$335,739,000	\$255,898,000	131.20%	76.52%
2015-16	0.575	387,022,000	266,821,000	145.05	74.02
2016-17	0.571	462,169,000	284,779,000	162.29	70.04
2017-18	0.561	518,709,000	296,958,000	174.67	69.46
2018-19	0.565	519,668,000	302,077,000	172.03	70.99
2019-20	0.591	534,293,000	313,827,000	170.25	72.56

In December 2016, PERS approved a plan to reduce the assumed investment rate of return from 7.50 percent to 7.00 percent over a three-year period. In addition, on December 20, 2017, PERS adopted new actuarial assumptions based on an experience study of PERS membership performed every four years. As the result of the study, updates were made to various assumptions including mortality, retirement rates and inflation. The reduction of the inflation assumption was implemented in two steps in conjunction with the decreases in the discount rate.

The actuarial funding method used in the PERS Schools Pool Actuarial Valuation as of June 30, 2019 (the "2019 PERS Schools Actuarial Valuation") is the entry age normal cost method, and assumes, among other things, a 7.00 percent investment rate of return (down from 7.25 percent in the prior valuation), 2.50 percent annual inflation (down from 2.625 percent in the prior valuation) and 2.75 percent annual payroll growth (down from 2.825 percent in the prior valuation).

The 2019 PERS Schools Actuarial Valuation determined the employer contribution rate for fiscal year 2020-21 to be 23.60 percent of salary, with the State's contribution to PERS on behalf of employers in fiscal year 2020-21 reducing the required employer contribution rate to 20.70 percent. Based on the 2019 PERS Schools Actuarial Valuation, the employer contribution rate is projected to increase 27.80 percent of salary by fiscal year 2024-25. Such projections contained in the 2019 PERS Schools Actuarial Valuation assume that all other actuarial assumptions will be realized and no changes to assumptions, contributions, benefits or funding will occur during the projected period.

The following table shows the statewide funding progress of the PERS Schools Pool for the previous nine years.

**Funding Progress
Public Employees' Retirement System (PERS) Schools Pool¹**

<u>Actuarial Valuation Date as of June 30</u>	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2011	\$45,901	\$58,358	\$12,457	78.7%	\$10,540	118.2%
2012	44,854	59,439	14,585	75.5	10,242	142.4
2013	49,482	61,487	12,005	80.5	10,424	115.2
2014	56,838	65,600	8,761	86.6	11,294	77.6
2015	56,814	73,325	16,511	77.5	12,098	136.5
2016	55,785	77,544	21,759	71.9	13,022	167.1
2017	60,865	84,416	23,551	72.1	13,683	172.1
2018	64,846	92,071	27,225	70.4	14,234	191.3
2019	68,177	99,528	31,351	68.5	14,844	211.2

¹Dollars in millions.

Source: California Public Employees' Retirement System, Schools Pool Actuarial Valuation as of June 30, 2019.

The District's proportionate share of the State PERS Schools Pool net pension liability as reported in its audited financial statements for fiscal years 2014-15, the first year for which the data was provided, through 2019-20 are set forth in the following table.

**Proportionate Share of the Net Pension Liability—PERS Schools Pool
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>Proportion of Statewide Net Pension Liability</u>	<u>Proportionate Share of Statewide Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as Percentage of Total Pension Liability</u>
2014-15	0.694%	\$78,836,000	\$72,899,000	108.14%	83.38%
2015-16	0.712	104,902,000	78,790,000	133.14	79.43
2016-17	0.710	140,149,000	85,132,000	164.63	73.89
2017-18	0.724	172,893,000	92,198,000	187.52	71.87
2018-19	0.730	194,740,000	97,719,000	199.29	70.85
2019-20	0.738	215,066,000	103,122,000	208.55	70.05

For the year ended June 30, 2020, the District's combined recognized pension expense was \$165,932,294. The District's total net pension liability as of June 30, 2020 was \$749,359,000.

The District is unable to predict the future amount of State pension liabilities or the amount of required District contributions. The District's pension plans, annual contribution requirements and liabilities are more fully described in "APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2020" attached hereto.

Other Postemployment Benefits (OPEB)

In addition to the pension benefits described above, the District provides postemployment health care benefits (known as "other postemployment benefits," or "OPEB"), in accordance with District employment contracts, to retirees meeting certain eligibility requirements. The District provides post-retirement health care benefits to all District employees who retired from the District prior to July 1, 2000 with 10 years of service, and who immediately entered retirement status with STRS or PERS. For these retired employees, the District pays the insurance premiums for the lowest cost health plan for the retiree and one dependent. As of June 30, 2020, 262 retirees were receiving these benefits. With no new retirees being added to the plan, the number of covered retirees is expected to decline over the next several years.

The District accounts for its pension costs and obligations pursuant to GASB *Statement No. 74 Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* ("GASB 74") and *Statement No. 75 Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions* ("GASB 75"). GASB 74 and GASB 75 require a liability for OPEB obligations, known as the net OPEB liability (the "NOL"), to be recognized on the balance sheet of the plan and the participating employer's financial statements. In addition, an OPEB expense will be recognized on the income statement of the participating employers. In the notes to its financial statements, employers providing OPEB also have to include information regarding the year-to-year change in the NOL and a sensitivity analysis of the NOL to changes in the discount rate and healthcare trend rate. GASB 74 and GASB 75 are directed at quantifying and disclosing OPEB obligations, and do not impose any requirement on public agencies to fund such obligations.

The District's total OPEB liability (the "TOL") associated with the OPEB Plan as of June 30, 2020 is \$11,770,913. The District has not set aside moneys in an irrevocable trust with which to pay the TOL, consequently, the NOL is also \$11,770,913. The District's OPEB expense associated with the OPEB Plan in fiscal year 2019-20 was \$1,055,458. The OPEB expense is the amount recognized in accrual basis financial statements as the current period expense. The OPEB expense includes the service cost, interest and certain changes in the NOL, adjusted to reflect deferred inflows and outflows.

The District also provides health and welfare benefits, as defined in Government Code Sections 3543.2 and 53200, for retired eligible employees of the District and their eligible dependents on an insured or self-funded basis through a trust qualified as non-profit under Section 501 (c)(9) of the Internal Revenue Code. The Elk Grove Benefits Employee Retirement Trust ("EGBERT") was established February 20, 1996 pursuant to an agreement by and between EGEA, AFSCME, ATU, PSWA and the District. Participation in EGBERT is limited to District employees and Board members who qualify pursuant to appropriate Board policies, and their respective dependents. Additionally, District employees who are not subject to the terms of a collective bargaining agreement, but who otherwise qualify for retirement health benefits pursuant to District policy, can participate in EGBERT. Health care benefits consist of medical, dental and vision insurance coverage. Under the current agreement, EGBERT will provide lifetime health care benefits for qualified retired employees of the District who retire on or after July 1, 2000. The contribution requirements of plan members and the District are established through the negotiation process and approved by the Board. The District does not retain any obligation for benefits in the event of insolvency of EGBERT. The District's contribution to EGBERT was \$10,880,141 in fiscal year 2019-20.

In 2020, an actuarial study was conducted analyzing liabilities associated with EGBERT as of December 31, 2019. Since EGBERT is not a governmental agency and is therefore not independent of the District's accounting requirements, the actuarial study was prepared using Financial Accounting Standards Board accounting rules and not GASB 74 and GASB 75. At the time of the valuation, the accrued actuarial value of benefits due to current and future retirees was \$798,855,600, and EGBERT had a trust net asset balance of \$156,288,316 to pay future retiree health benefit costs. Under an open-group projection, without future changes to eligibility, contributions, and/or retiree benefits, the projected trust net assets using a 4.0 percent and 6.4 percent assumed annual rate of return would be depleted in 2040 and 2045, respectively.

See "APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2020" for additional information regarding the District's OPEB.

Public Entity Risk Pools and Joint Powers Authorities

The District is a member with other school districts of the Schools Insurance Authority (“SIA”) for the operation of a common risk management and insurance program for property and liability coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The District has appointed one member to the governing board of SIA.

The relationship between the District and SIA is such that it is not a component unit of the District for financial reporting purposes. SIA has budgeting and financial reporting requirements independent of member units, and its financial statements are not presented in the District’s financial statements; however, fund transactions between SIA and the District are included in the District’s financial statements.

Cyber Security

The District, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other electronic sensitive information, the District is potentially subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District’s systems for the purposes of misappropriating assets or information or causing operational disruption or damage. [The District has never had a major cyber breach that resulted in a financial loss. The District maintains insurance coverage for cyber security losses should a successful breach ever occur. TO CONFIRM]

No assurance can be given that the District’s efforts to manage cyber threats and attacks will, in all cases, be successful or that any such attack will not materially impact the operations or finances of the District. The District is also reliant on other entities and service providers, such as the County Director of Finance for the levy and collection of property taxes securing payment of the Bonds and the Paying Agent in its role as paying agent. No assurance can be given that the District may not be affected by cyber threats and attacks against other entities or service providers in a manner which may affect the Bondowners, e.g., systems related to the timeliness of payments to Bondowners.

DISTRICT FINANCIAL INFORMATION

It should not be inferred from the inclusion of the information in this section concerning the operations of the District and its finances that the principal of or interest on the Bonds is payable from the General Fund. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

All tables in this section “DISTRICT FINANCIAL INFORMATION” are derived from the District’s audited financial statements, interim financial reports or other information provided by the District unless a source is otherwise indicated.

Accounting Practices

The District accounts for its financial transactions in accordance with the policies and procedures of the State Department of Education’s *California School Accounting Manual*, which, pursuant to Education Code Section 41010, is to be followed by all school districts in the State. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by GASB and the American Institute of Certified Public Accountants.

The District’s financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net position and a statement of activities, report all the assets, liabilities, revenue and expenses of the District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the District’s major and non-major funds. Governmental funds, including the General Fund, special revenues funds, capital project funds

and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See “NOTE 1” in “APPENDIX A” attached hereto for a further discussion of applicable accounting policies.

The independent auditor for the District in fiscal year 2019-20 was Crowe LLP, Sacramento, California (the “Auditor”). The financial statements of the District as of and for the year ended June 30, 2020, are set forth in “APPENDIX A” attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not been engaged to perform and has not performed, since the date of its report attached hereto, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

Budget and Financial Reporting Process

The General Fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as federal and State school apportionments, taxes, use of money and property, and aid from other governmental agencies.

The District is required by provisions of the Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed revenues plus the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting format for all school districts.

The fiscal year for all State school districts and county offices of education is July 1 to June 30. Because most school districts depend on State funds for a substantial portion of revenue, the State budget is an extremely important input in the school district budget preparation process. However, there is very close timing between final approval of the State budget (legally required by June 15), the adoption of the associated school finance legislation, and the adoption of local school district budgets. In some years, the State budget is not approved by the legal deadline which forces school districts to begin the new fiscal year with only estimates of the amount of funding they will actually receive.

The school district budgeting process involves continuous planning and evaluation. Within the deadlines, school districts work out their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on critical estimates of enrollment, fixed costs, and commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education. The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to certificated employees must be delivered by March 15, with final notices by May 15 (should the enacted State budget not increase funding per ADA by at least two percent, an additional layoff window for certificated employees is opened until August 15). This necessitates projecting enrollment and determining staffing needs long before a school district will know either its final financial position for the current year or its revenue for the next year.

School districts must adopt an annual budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. The governing board of the school district must not adopt a budget before the governing board adopts a local control and accountability plan (the “LCAP”) for that budget year. See “FUNDING OF PUBLIC EDUCATION IN THE STATE” herein.

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the school district to meet its current obligations, will determine if the budget is consistent with a financial plan that will enable the school district to meet its multi-year financial commitments, and will determine if the budget ensures the fiscal solvency and accountability for the goals outlined in the LCAP. On or before September 15, the county superintendent will approve or disapprove the adopted budget for each school district within its jurisdiction based on these standards. The school district board must be notified by September 15 of the county superintendent’s recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent’s recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the school district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than October 22, the county superintendent must notify the State Superintendent of Public Instruction (the “State

Superintendent”) of all school districts whose budget may be disapproved, and no later than November 8, the county superintendent must notify the State Superintendent of all school district budgets that have been disapproved or budget committees waived.

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

Under the provisions of State Assembly Bill 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. Each school district is required by the Education Code to file two interim reports each year—the first report for the period ending October 31 by not later than December 15, and the second report for the period ending January 31 by not later than March 15. Each interim report shows fiscal year-to-date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that, based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that, based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that, based upon current projections, may not meet its financial obligations for the current fiscal year or subsequent two fiscal years. If either the first or second interim report is not positive, the county superintendent may require the school district to provide a third interim report by June 1 covering the period ending April 30. If not required, a third interim report is generally not prepared (though may be at the election of the school district).

The county superintendent must annually present a report to the governing board of the school district and the State Superintendent regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty, pursuant to Education Code Section 42127.6. Any school district with a qualified or negative certification must allow the county office of education at least 10 working days to review and comment on any proposed agreement made between its bargaining units and the school district before it is ratified by the school district board (or the state administrator). The county superintendent will notify the school district, the county board of education, the school district governing board and the school district superintendent (or the state administrator), and each parent and teacher organization of the school district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district. Also, pursuant to Education Code Section 42133, a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the repayment of that debt by the school district is probable.

The filing status for each of the District’s interim reports for the previous five fiscal years and the current fiscal year appears in the following table.

**Certifications of Interim Financial Reports
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>First Interim</u>	<u>Second Interim</u>
2015-16	Positive	Positive
2016-17	Positive	Positive
2017-18	Positive	Positive
2018-19	Positive	Positive
2019-20	Positive	Positive
2020-21	Negative	Positive ¹

¹Self-certified

Financial Statements

Figures presented in summarized form herein have been gathered from the District's financial statements. The audited financial statements of the District for the fiscal year ended June 30, 2020, have been included in "APPENDIX A" attached hereto. Audited financial statements and other financial reports for prior fiscal years are available on the EMMA website and are on file with the District and available for public inspection during normal business hours.

The following table sets forth the District's audited General Fund balance sheet data for fiscal years 2015-16 through 2019-20.

General Fund Balance Sheet Elk Grove Unified School District

	<u>2015-16</u> <u>Audited</u>	<u>2016-17</u> <u>Audited</u>	<u>2017-18</u> <u>Audited</u>	<u>2018-19</u> <u>Audited</u>	<u>2019-20</u> <u>Audited</u>
Assets					
Cash and Investments	\$128,033,612	\$140,421,967	\$142,272,692	\$132,185,144	\$74,319,942
Accounts Receivable	21,258,465	23,551,987	18,602,252	26,404,270	80,507,507
Prepaid Expenditures	350,579	925,081	881,869	1,096,769	407,934
Due from Other Funds	3,131,021	1,743,919	2,385,971	2,807,311	7,139,515
Stores Inventory	<u>509,283</u>	<u>573,174</u>	<u>541,394</u>	<u>551,834</u>	<u>588,109</u>
Total Assets	\$153,282,960	\$167,216,128	\$164,684,178	\$163,045,328	\$162,963,007
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$24,778,059	\$27,888,770	\$27,291,982	\$26,786,067	\$17,619,265
Unearned Revenue	17,482,588	21,007,299	18,834,238	8,443,684	9,150,182
Due to Other Funds	<u>3,021,114</u>	<u>4,481,011</u>	<u>3,458,928</u>	<u>5,086,156</u>	<u>2,115,219</u>
Total Liabilities	\$45,281,761	\$53,377,080	\$49,585,148	\$40,315,907	\$28,884,666
Fund Balances					
Nonspendable	\$999,862	\$1,638,255	\$1,563,263	\$1,788,603	\$1,136,043
Restricted	22,476,365	20,765,978	24,884,106	35,926,702	43,459,447
Assigned	0	77,579,815	74,651,661	19,064,920	74,481,851
Unassigned	<u>84,524,972</u>	<u>13,855,000</u>	<u>14,000,000</u>	<u>65,949,196</u>	<u>15,001,000</u>
Total Fund Balances	\$108,001,199	\$113,839,048	\$115,099,030	\$122,729,421	\$134,078,341
Total Liabilities and Fund Balances	\$153,282,960	\$167,216,128	\$164,684,178	\$163,045,328	\$162,963,007

The following table sets forth the District's audited General Fund activity for fiscal years 2016-17 through 2019-20 and budgeted activity for fiscal year 2020-21 as of the second interim report.

**General Fund Activity
Elk Grove Unified School District**

	2016-17 <u>Audited</u>	2017-18 <u>Audited</u>	2018-19 <u>Audited</u>	2019-20 <u>Audited</u>	2020-21 <u>Second Interim</u>
Beginning Balance	\$108,001,199	\$113,839,048	\$115,099,030	\$122,729,421	\$134,078,341
Revenues					
Local Control Funding Formula	\$519,929,409	\$530,494,128	\$570,771,403	\$592,402,242	\$591,885,134
Federal Revenues	32,724,142	37,961,053	37,237,656	35,107,001	95,772,483
Other State Revenues	100,426,657	94,571,520	135,659,294	108,246,699	114,934,924
Other Local Revenues	<u>9,121,149</u>	<u>14,942,405</u>	<u>8,922,743</u>	<u>7,975,230</u>	<u>9,231,971</u>
Total Revenues	\$662,201,357	\$677,969,106	\$752,591,096	\$743,731,172	\$811,824,512
Expenditures					
Certificated Salaries	\$308,098,033	\$317,086,909	\$328,573,372	\$321,722,814	\$318,905,012
Classified Salaries	84,557,084	90,025,348	\$100,541,258	\$99,465,572	108,696,720
Employee Benefits	166,792,676	172,613,407	\$218,843,048	\$211,951,965	214,037,296
Books and Supplies	31,178,665	24,947,770	\$23,759,581	\$24,027,909	86,477,474
Services and Other Operating Exp.	55,898,522	60,147,490	\$64,894,387	\$69,740,559	73,429,596
Capital Outlay	6,224,908	8,035,373	\$5,993,992	\$6,364,117	17,268,746
Other Outgo	3,120,340	4,244,546	\$3,170,717	\$4,047,224	2,640,683
Debt Service	<u>499,111</u>	<u>499,111</u>	<u>\$499,111</u>	<u>\$499,111</u>	<u>n/a</u>
Total Expenditures	\$656,369,339	\$677,599,954	\$746,275,466	\$737,819,271	\$821,455,527
Other Financing Sources	\$5,831	\$890,830	\$1,314,761	\$5,437,019	(\$229,770)
Net Increase (Decrease)	\$5,837,849	\$1,259,982	\$7,630,391	\$11,348,920	(\$9,860,785)
Ending Balance	\$113,839,048	\$115,099,030	\$122,729,421	\$134,078,341	\$124,217,556

Figures may not total due to rounding.

The 2020-21 Second Interim Report

The District Board approved the District's second interim report for fiscal year 2020-21 (the "2020-21 Second Interim Report") at its meeting on March 10, 2021. The 2020-21 Second Interim Report includes approximately \$58 million of emergency funding allocated from CARES Act moneys received by the State along with approximately \$58 million in COVID-19 related expenditures. Approximately \$59 million in federal funding that the District expects to receive under the Coronavirus Relief Act as well additional funding from ARPA and AB 86 is not included in the 2020-21 Second Interim Report.

The 2020-21 Second Interim Report projects General Fund expenditures (including net transfers out of the General Fund) to be approximately \$9.9 million more than General Fund revenues in fiscal year 2020-21. The General Fund ending balance as of June 30, 2021, is budgeted to be approximately \$124.2 million in the 2020-21 Second Interim Report, including approximately \$0.7 million of nonspendable funds, \$34.8 million of restricted funds and \$88.7 million of unrestricted funds.

Revenues

The District categorizes its General Fund revenues into four primary sources: LCFF, federal revenues, other State revenues and other local revenues.

Local Control Funding Formula (LCFF). For nearly half a century, State school districts operated under general purpose revenue limit funding based on a district's average daily student attendance, much of which was restricted by category as to how each dollar could be spent. Revenue limit funding was calculated by multiplying a school district's ADA (using the greater of the current or prior year P-2 ADA) by the school district's revenue limit funding per ADA, with certain adjustments.

In landmark legislation effective fiscal year 2013-14, the State introduced a new school district funding formula, the local control funding formula or LCFF. LCFF consolidated most categorical programs in order to give school districts more control over how to spend their revenues. At full implementation of LCFF, school districts receive a uniform base grant per student based on grade span, a supplemental grant based on an unduplicated count of the targeted disadvantaged students ("unduplicated students") in the school district, and an additional concentration grant based on the number of unduplicated students in the school district above 55 percent, with qualifying schools receiving an additional necessary small school allowance. The base, supplemental, and concentration grant amounts per student were set in fiscal year 2012-13 and are subject to cost-of-living adjustments thereafter. School districts that would otherwise receive less funding at full implementation of LCFF than they did under the revenue-limit system are also guaranteed an additional Economic Recovery Target ("ERT") grant to restore funding to at or above their pre-recession funding, adjusted for inflation.

LCFF was originally scheduled to be phased in over eight years through fiscal year 2020-21. To calculate LCFF funding during the phase-in period, school districts calculated their "funding gap," the difference between LCFF funding calculated at full implementation and their "funding floor," an amount based on fiscal year 2012-13 funding levels under the revenue limit system adjusted for prior LCFF phase-in adjustments. School districts received their funding floor plus a percentage of their funding gap as specified in the State budget. In fiscal year 2018-19, the State funded 100 percent of the remaining gap. See "FUNDING OF PUBLIC EDUCATION IN THE STATE" herein for more information about LCFF.

In fiscal year 2019-20, approximately 56.82 percent of the District's students were unduplicated students for LCFF calculation purposes. The District's LCFF funding was calculated to be \$592,007,886 in fiscal year 2019-20, comprised of \$524,475,561 in base grant funding, \$59,601,403 in supplemental grant funding, \$4,772,728 in concentration grant funding and \$3,158,194 in ERT add-on funding.

Set forth in the following table are the District's funded ADA by grade span, the percentage of unduplicated student enrollment, total LCFF funding and average LCFF funding per ADA for fiscal years 2013-14 through 2019-20 along with budgeted data as of the second interim report for fiscal year 2020-21.

**Funded ADA, Unduplicated Student Enrollment Percentage and Total LCFF Funding
Elk Grove Unified School District**

<u>Fiscal Year</u>	<u>Total Funded ADA</u>	<u>Unduplicated Student Enrollment Percentage¹</u>	<u>Total LCFF Funding</u>	<u>Average LCFF Funding per ADA²</u>
2013-14	59,532	55.96%	\$390,716,856	\$6,563
2014-15	59,627	58.92	434,409,444	7,286
2015-16	59,708	58.81	490,244,123	8,211
2016-17	59,998	58.07	519,182,978	8,653
2017-18	59,974	57.56	532,295,434	8,851
2018-19	60,245	56.95	567,566,098	9,421
2019-20	60,855	56.82	592,007,886	9,728
2020-21 ³	60,766	55.20	591,885,134	9,740

¹For purposes of calculating supplemental and concentration grants, a school district's fiscal year 2013-14 percentage of unduplicated students is determined solely as the percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated students is based on the two-year average of unduplicated student enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated student enrollment is based on a rolling average of such district's unduplicated student enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

²Represents average LCFF funding per ADA across grade spans.

³Estimated as of the second interim report.

Funding of the District's LCFF is accomplished by a mix of a) local taxes (composed predominantly of property taxes, and including miscellaneous taxes and certain community redevelopment funds, if any) and b) State apportionments. The majority of the District's LCFF funding comes from State apportionments.

LCFF revenues were 75.8 percent of General Fund revenues in fiscal year 2018-19, were 79.7 percent of General Fund revenues in fiscal year 2019-20 and are budgeted to be 72.9 percent of General Fund revenues in fiscal year 2020-21 as of the second interim report.

Federal Revenues. The federal government provides funding to the District under several programs, including the Individual with Disabilities Education Act and Title I, Title II and Title III. These federal revenues, most of which historically have been restricted, were 4.9 percent of General Fund revenues in fiscal year 2018-19, were 4.7 percent of General Fund revenues in fiscal year 2019-20 and are budgeted to be 11.8 percent of General Fund revenues in fiscal year 2020-21 as of the second interim report. Included in fiscal year 2020-21 federal revenues is approximately \$52 million in emergency funding allocated from CARES Act moneys received by the State.

Other State Revenues. In addition to apportionment revenues, the State provides funding to the District for categorical programs including special education. These other State revenues were 18.0 percent of General Fund revenues in fiscal year 2018-19, were 14.6 percent of General Fund revenues in fiscal year 2019-20 and are budgeted to be 14.2 percent of General Fund revenues in fiscal year 2020-21 as of the second interim report. Included in other State revenues are proceeds received from the State from the State lottery.

Other Local Revenues. Revenues from other local sources were 1.2 percent of General Fund revenues in fiscal year 2018-19, were 1.1 percent of General Fund revenues in fiscal year 2019-20 and are budgeted to be 1.1 percent of General Fund revenues in fiscal year 2020-21 as of the second interim report.

Expenditures

The largest components of a school district's general fund expenditures are certificated and classified salaries and employee benefits. Changes in salary and benefit expenditures from year to year are generally based on changes in staffing levels, negotiated salary increases, and the overall cost of employee benefits. Even with no negotiated salary increases or changes in staffing levels, normal "step and column" advancements on the salary scale result in increased salary expenditures.

Employee salaries and benefits were 86.8 percent of General Fund expenditures in fiscal year 2018-19, were 85.8 percent of General Fund expenditures in fiscal year 2019-20 and are budgeted to be 78.1 percent of General Fund expenditures in fiscal year 2020-21 as of the second interim report.

Short-Term Borrowings

The District has in the past issued short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the District have been used to reduce inter-fund dependency and to provide the District with greater overall efficiency in the management of its funds.

The District has no short-term debt outstanding.

Capitalized Lease Obligations

The District has made use of various capital lease arrangements under agreements that provide for title of items and equipment being leased to pass to the District upon expiration of the lease period. As of June 30, 2020, the District had \$1,855,237 in capital lease arrangements outstanding.

In April 2016, the District issued the Elk Grove Unified School District 2016 Certificates of Participation (Capital Facilities Project) (the "2016 Certificates") in the aggregate principal amount of \$109,910,000. Proceeds of the 2016 Certificates were used to finance capital facilities projects as well as prepay a portion of the special tax bonds issued by the District on behalf of Community Facilities District No. 1 of the Elk Grove Unified School District ("CFD No. 1"). Debt service on the 2016 Certificates is anticipated to be paid from CFD No. 1 special taxes.

In February 2019, the District entered into a lease financing (the "2019 Lease") in the aggregate principal amount of \$12,612,000 to finance the construction of an elementary school. Debt service on the 2019 Lease is anticipated to be paid from CFD No. 1 special taxes.

The District's outstanding certificates of participation and lease financings as of March 1, 2021 are set forth in the following table.

Outstanding Certificates of Participation Elk Grove Unified School District

<u>Issue</u>	<u>Date Issued</u>	<u>Amount Issued</u>	<u>Final Maturity</u>	<u>Outstanding as of March 1, 2021</u>	<u>Debt Service in Fiscal Year 2020-21</u>
2016 Certificates	April 27, 2016	\$109,910,000	February 1, 2040	\$98,425,000	\$6,199,819
2019 Lease	February 5, 2019	12,612,000	February 1, 2040	11,770,000	850,606

Long-Term Borrowings

General Obligation Bonds. At the 2016 Authorization, more than 55 percent of voters in the District approved Measure M, authorizing the issuance of not-to-exceed \$476,000,000 aggregate principal amount of general obligation bonds to finance authorized school improvements. In June 2017, the District issued the 2017 Bonds in the aggregate principal amount of

\$82,100,000. In February 2019, the District issued the 2019 Bonds in the aggregate principal amount of \$121,000,000. The Bonds represent the third series of bonds to be issued pursuant to the 2016 Authorization.

The following table summarizes the District's outstanding long-term general obligation bond indebtedness as of March 1, 2021.

**Outstanding General Obligation Bonds
Elk Grove Unified School District**

<u>Authorization</u>	<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Amount Issued</u>	<u>Outstanding as of March 1, 2021</u>	<u>Debt Service in Fiscal Year 2020-21</u>
2016 Authorization	2017 Bonds	August 1, 2046	\$82,100,000	\$61,550,000	\$2,289,081
2016 Authorization	2019 Bonds	August 1, 2018	121,000,000	115,300,000	10,181,300

Community Facilities District No. 1. Pursuant to the Mello-Roos Community Facilities Act of 1982, on January 26, 1987, the Board duly formed CFD No. 1, and on April 28, 1987, at an election held pursuant to the law (the "1987 Election"), voters within the boundaries of CFD No. 1 authorized the issuance of \$70,000,000 principal amount of special tax bonds of CFD No. 1. At a subsequent election held on March 10, 1998 (the "1998 Election"), registered voters in CFD No. 1 authorized changes to the rate and method of apportionment of the special tax approved pursuant to the 1987 Election and approved the issuance of an additional \$205,000,000 principal amount of special tax bonds.

In November 1998, the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 Special Tax Bonds (Election of 1998), Series 1998, in the principal amount of \$28,954,336 (the "1998 Bonds"). In November 2001, the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 Special Tax Bonds (Election of 1998), Series 2001, in the principal amount of \$21,343,383 (the "2001 Bonds"). In November 2003, the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 Special Tax Bonds (Election of 1998), Series 2003 Bonds in the principal amount of \$28,000,848 (the "2003 Bonds"). In November 2005, the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 Special Tax Bonds (Election of 1998), Series 2005 Bonds in the principal amount of \$43,540,000 (the "2005 Bonds"). In November 2008, the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 Special Tax Bonds (Election of 1998), Series 2008 Bonds in the principal amount of \$31,226,133. A total of \$153,064,700 has been issued from 1998 authorization (the "2008 Bonds"). In November 2012 the District issued on behalf of CFD No. 1 the Elk Grove Unified School District Community Facilities District No. 1 2012 Special Tax Refunding Bonds (the "2012 Refunding Bonds") in the principal amount of \$84,065,000 to refund the 1998 Bonds maturing December 1, 2013 through 2028, inclusive, the 2001 Bonds maturing December 1, 2013 through 2031, inclusive, and the 2003 Bonds maturing December 1, 2022 through 2033, inclusive. The 2016 Certificates prepaid the 2003 Bonds and 2005 Bonds as well as a portion of the 2008 Bonds.

The following table summarizes the District's outstanding long-term indebtedness on behalf of CFD No. 1 as of March 1, 2021.

**Outstanding Special Tax Bonds
Community Facilities District No. 1 of the
Elk Grove Unified School District**

<u>Authorization</u>	<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Issued</u>	<u>Outstanding as of March 1, 2021¹</u>	<u>Debt Service in Fiscal Year 2020-21</u>
1987 Election	1995 Refunding	December 1, 2024	\$42,260,110	\$7,400,000	\$3,495,900
1998 Election	2008 Bonds	December 1, 2036	31,226,133	651,133	0
1998 Election	2012 Refunding	December 1, 2033	84,065,000	78,895,000	3,310,988

¹Excludes accreted interest of capital appreciation bonds.

[The District has not defaulted on the payment of principal of or interest on any of its short-term indebtedness, capital lease obligations or long-term indebtedness in the past 20 years.] All long-term indebtedness of the District as of June 30, 2020, is set forth in “APPENDIX A” attached hereto.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES

Background

From the Separation of Sources Act (1910) until Proposition 13 (1978), local governments had control over property tax rates and revenues within their jurisdiction. Voter approval was not required for most taxes, charges or fees imposed by local governments. Each school district in the State raised revenue by taxing local property owners according to a tax rate established by its governing board, subject to voter approval, and received some supplemental funds from the State. The State’s role in providing for public education and education facilities was limited during this time. Local school districts relied largely on general obligation bonds as the primary source of funding for school facilities.

The passage of Proposition 13 brought this local property tax system to an end, fundamentally changing local government finance. Local government entities are no longer authorized to levy a general tax rate. Instead, they share in the revenues generated by Proposition 13’s countywide tax rate. In the year following the passage of Proposition 13, local property tax revenue across the State fell approximately 60 percent. In order for school districts to continue operating, the State had to assume primary responsibility for public school funding, replacing the lost property tax revenue with moneys from the State general fund. As a result of Proposition 13, control over revenues shifted away from local school districts to the State government. Proposition 13 also eliminated the ability of school districts to issue bonds; for a decade, the State provided some of the cost of school facilities projects until the passage of Proposition 46 (1986) restored the ability of school districts to issue such bonds.

Article XIII A of the State Constitution

Article XIII A, added to the State Constitution by Proposition 13 and amended over time, limits the *ad valorem* property tax rate that can be levied on real property to one percent of its “full cash value” except to pay debt service, discussed below. “Full cash value” is defined as the property’s assessed value as of the fiscal year 1975-76 tax bill, annually increased by the lesser of either two percent or the rate of inflation. Subsequently, the property is reappraised for tax purposes upon a change in ownership or new construction. Several types of changes in ownership and construction have been exempted from the reassessment requirement by amendment, including improvements for seismic retrofit, solar energy, fire prevention, disability access, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property is destroyed in a declared disaster, and certain transfers of property between family members.

In most years, the market value of a property increases at a rate greater than the maximum two percent increase a county is allowed to calculate. As amended by Proposition 8 (1978), Article XIII A allows for a county to temporarily reduce the assessed value to current market value when the market value of the property falls below the property’s adjusted acquisition value due to an economic recession, natural disaster or other cause of damage. In years in which reduced reassessments are widespread, property tax revenue available to local governments such as school districts is reduced. Pursuant to interpretation of the Revenue and Taxation Code and upheld by State courts, once the market has rebounded or the property has been repaired to substantially its original condition, a county may increase the assessed value of the property at a rate greater than two percent annually until it has reached the property’s pre-decline assessed value.

As a result of these laws, real property that has been owned by the same taxpayer for many years can have an assessed value that is much lower than the market value of the property and of similar properties more recently sold. Likewise, changes in ownership of property and reassessment of such property to market value commonly lead to increases in aggregate assessed value even when the rate of inflation or consumer price index would not permit the full two percent increase on any property that has not changed ownership. Any increase or decrease in assessed valuation is allocated among the various jurisdictions.

The one percent tax is levied and collected by each county, and the revenue is apportioned by the county to each local government agency in the taxing area roughly in proportion to the relative shares of taxes as levied prior to 1979. Local government agencies, including school districts, may not directly levy any *ad valorem* property tax, unless the property tax is

levied to pay debt service (interest and redemption charges) on a local government's indebtedness approved by voters prior to July 1, 1978, or, thereafter, as amended by Proposition 46 (1986), bonded indebtedness for the acquisition or improvement of real property approved by a two-thirds majority. In addition, Proposition 39 (2000) added a provision allowing for a lowered voter approval rate specifically for bonds to fund school facilities projects. A school district or community college district may levy *ad valorem* property taxes in excess of one percent with 55 percent voter approval if the bonds will be used for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities. The measure must include the specific list of projects to be funded and certification that the school district's governing board has evaluated safety, class size reduction, and information technology needs in developing the list, and must conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Pursuant to legislation, the projected tax rate per \$100,000 of taxable property value levied as the result of any single election may be no more than \$60 in a unified school district, \$30 in a high school or elementary school district, or \$25 in a community college district. The 2016 Authorization was conducted pursuant to Proposition 39.

Article XIII B of the State Constitution

Article XIII B, added to the State Constitution by Proposition 4 (1979), amended by Proposition 111 (1990), limits the amount of certain funds, including tax revenues, that may be annually appropriated by the State and local governments, including school districts, to the amount appropriated the prior year, adjusted to reflect the rate of economic growth by measuring the change in *per capita* personal income and population. Certain payments are exempt from the appropriations limit calculation, including debt service payments; certain benefit payments, mandated expenses, State payments to school districts and community college districts, increases in revenues gained from fuel, vehicle and tobacco taxes, emergency appropriations; and qualified capital outlay projects (projects involving fixed assets such as land or construction that have an expected life of more than 10 years and a value greater than \$100,000).

Tax revenues in excess of the appropriation limit are shared between increased education funding and taxpayer rebates. Calculated over two years, half of any excess is transferred to K-14 school districts and half is returned to taxpayers through a revision of tax rates within two fiscal years. Any such excess revenues transferred to K-14 school districts are not counted as part of the school districts' base expenditures for calculating their entitlement for State aid in the next year, nor is the State's appropriations limit increased by this amount. If a K-14 school district's revenues exceed its appropriations limit, the school district may increase its appropriations limit to equal its spending by borrowing from the State's appropriations limit.

Articles XIII C and XIII D of the State Constitution

Articles XIII C and XIII D, added to the State Constitution by Proposition 218 (1996) and amended over time, limit the ability of local governments, including school districts, to levy and collect non-*ad valorem* property taxes, assessments, fees and charges. The law establishes that a tax must be either a "general" tax, requiring the approval of a simple majority of voters, the proceeds of which can only be used for general government purposes, or a "special" tax, requiring the approval of two-thirds of voters, the proceeds of which are used for a specific purpose, or if the tax is levied by a special-purpose government agency, including a school district. Any tax levied on property, other than the *ad valorem* property tax governed by Article XIII A, is a special tax, requiring the approval of two-thirds of voters. Special-purpose government agencies, such as a school district, cannot levy general taxes.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. A portion of the District's revenues are received annually from property taxes. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Director of Finance to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* property taxes pledged to repay general obligation bonds. In the case of *Bighorn-Desert View Water Agency v. Virgil (Kelley)*, the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIII C. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the United States Constitution.

The initiative power can be used to reduce or repeal most local taxes, assessments, fees and charges. Article XIID deals with assessments and property-related fees and charges and expressly cautions that its provisions shall not be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is available to repeal or reduce developer and mitigation fees imposed by the District. The District has no power to impose taxes except those property taxes associated with a general obligation bond election, following approval by 55 percent or two-thirds of the District's voters, depending upon the legal authority for the issuance of such bonds.

As amended by Proposition 26 (2010), the law defines any levy, charge, or exaction of any kind imposed by a local government as a tax requiring voter approval. The following exceptions do not require voter approval: a reasonable charge for a specific benefit, privilege, product or service that is received only by the payor of the charge; a reasonable charge for regulatory costs of issuing a license or permit, performing an inspection or audit, or enforcing an order; a charge for use, rental, or purchase of government property; a charge, fine or penalty for violation of law; and assessments and property-related fees imposed as a condition of property development. Although such fees and charges levied by one taxing jurisdiction do not directly impact the amount of revenue available to another taxing jurisdiction from *ad valorem* property taxes, if the ability to impose the fee or charge is restricted, it could indirectly impact such revenues.

Minimum Guarantee of State Funding for Education

Proposition 98 (1988), added Article XVI to the State Constitution, requiring that "from all State revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and higher education." Known as the "minimum guarantee," funding for K-14 school districts, made up of a combination of State general fund income tax revenues and local property tax revenues, must be the greater of either the same percentage of State general fund revenues as was appropriated in fiscal year 1986-87, or the amount actually appropriated to such school districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The minimum guarantee allocated each year, determined by a set of tests, is approximately 40 percent or more of State general fund revenues. The amount of the minimum guarantee is not finalized until the final economic analysis is completed for a fiscal year; if the revisions result in a higher minimum guarantee than was budgeted, the State makes a one-time "settle-up" payment and uses the increased minimum to calculate the subsequent year's funding, as described below. If the revised minimum guarantee is lower than budgeted, the State can use the higher level or make mid-year adjustments to reduce funding.

"Test 1" (share of the State general fund) allocates approximately 41 percent of the State general fund revenue to K-14 school districts. Test 1, in which the amount of the minimum guarantee is based on the share of the State general fund revenue spent on K-14 education funding in fiscal year 1986-87, only applies if Test 2 or Test 3 (described below) does not result in additional funding for K-14 school districts. Test 1 has been used 8 times in the last 33 years, including fiscal years 2018-19, 2019-20 and 2020-21 (budgeted).

"Test 2" (change in *per capita* personal income) provides that K-14 school districts receive the same amount of funding received in the prior year, adjusted for year-over-year statewide changes in K-12 attendance and *per capita* personal income. Test 2 is used if it results in more funding for K-14 school districts than Test 1 (unless Test 3 applies instead). Test 2 has been used in 16 of the past 33 years, including fiscal year 2017-18.

"Test 3" (change in general fund revenue) provides that K-14 school districts receive the same amount of funding received in the prior year, adjusted for year-over-year statewide changes in K-12 attendance and general fund revenue; this calculation is only used if the percentage change in *per capita* State general fund revenue is less than the change in *per capita* personal income. Test 3 has been used in 9 of the past 33 years, including fiscal years 2015-16 and 2016-17.

In years of economic hardship, the State Legislature can suspend the minimum guarantee for a year by a two-thirds vote, which also triggers the maintenance factor obligation, to be restored in later years. Such suspension has only occurred twice, in fiscal years 2004-05 and 2010-11.

The State creates a maintenance factor obligation when Test 3 is operative or when the minimum guarantee is suspended. In any year in which Test 3 is used, the difference between the actual amount of funding provided and the amount that would have been appropriated, under the larger amount of either Test 1 or Test 2, is considered a "maintenance factor" credit to K-14 school districts, to be restored in future years when State revenue growth rebounds to exceed personal income. The State constitution requires the maintenance factor be paid off in annual amounts determined by formula, with stronger revenue growth generally requiring larger payments.

The State Legislature has the authority to spend more than the minimum guarantee, although any increase creates a higher minimum floor for the following year; this has occurred from time to time. At times, the State also has had outstanding one-time Proposition 98 obligations known as “settle-up” obligations. A settle-up obligation is created when the minimum guarantee increases midyear and the State does not make an additional payment within that fiscal year to meet the higher guarantee. The increased amount is used as the base for the following year’s minimum guarantee. Settle-up funds can be used for any educational purpose, including paying off other state one-time obligations, such as deferrals and mandates.

Community Redevelopment and Revitalization

Beginning with the Community Redevelopment Act (1945) under Article XVI of the State Constitution, amended over time, until the termination and dissolution of the program in 2011, a local government could improve an economically depressed area by creating a redevelopment agency (an “RDA”) to pay for development projects with the future increase in property tax revenue, or “tax increment,” attributable to the growth in assessed value of taxable property within the project area when the project was complete. However, the allocation of the tax increment to the local RDA caused a reduction in the one percent countywide property tax levy for other local taxing agencies, including school districts, although *ad valorem* property taxes in excess of the one percent property tax levy collected for payment of debt service on school district bonds were not affected. Although a school district could negotiate with the RDA for “pass-through” payments of local tax revenues, because the State was replacing the school district’s lost tax revenue, there was little incentive for most school districts to negotiate for greater amounts of pass-through from the RDAs. The State’s share of reimbursements to such school districts soared into the hundreds of millions of dollars per year.

Facing economic crisis, Assembly Bill, First Extended Session 26 (“AB1X 26”) (2011), upheld by the State Supreme Court in *California Redevelopment Association v. Matosantos* (2011), was enacted to dissolve the more than 400 RDAs in the State to preserve funding for core public services at the local level. Successor agencies were established to facilitate the management of projects underway, making payments on enforceable obligations, and disposing of assets and properties. Senate Bill 107 (2015) streamlined the dissolution process and expanded the types of loans for which cities and counties can seek reimbursement. The District does receive pass-through payments from a dissolution process. See “DISTRICT FINANCIAL INFORMATION—Revenues” herein.

Assembly Bill 2 (“AB2”) (2015), the result of several legislative efforts to replace the redevelopment law in order to provide local government options for sustainable community economic development, is a limited version of the former law, targeting only the State’s most impoverished areas. AB2 allows a local government to create a community revitalization investment area (“CRIA”) if several conditions are met, including measures of unemployment, crime, and dilapidated infrastructure and residential structures, which are required to insure that the CRIA process is actually used for the intended purpose of alleviating blight. Significantly, school districts are prohibited from participating in the CRIA; because schools may not contribute their share of the tax increment to the project area, the funding impact to schools and the State is avoided. Assembly Bill 2492 (2016) was enacted that clarified implementation issues of AB2.

Limits on State Authority Over Local Tax Revenues

State and local governments’ funding and responsibilities are interrelated. Both levels of government share revenues raised by certain taxes such as sales and fuel taxes, and both also share in the costs for some programs such as health and social services. Although the State does not receive local property tax revenue, it has had authority over the distribution of these revenues among local agencies and school districts. Under Article XIII A, the State had the authority to permanently shift property taxes among local governments. At times, the State fulfilled some portion of the Proposition 98 minimum guarantee by shifting some of the property tax revenues share belonging to cities, counties, other special districts and redevelopment agencies to K-14 school districts through an Educational Revenue Augmentation Fund (“ERAF”) established in each county.

Proposition 1A (2004) amended Articles XI and XIII of the State Constitution to require two-thirds approval of the State Legislature to shift property tax revenues allocation between local governments, preventing the State from reducing the property tax share allocated to cities, counties, and special districts. However, the State could still transfer property tax revenues to schools in the case of severe fiscal hardship and two-thirds approval of the State Legislature.

Proposition 22 (2010) amended Articles XIII and XIX of the State Constitution to further restrict the State’s control over local property taxes in order to stabilize local government revenue sources. Even during times of severe fiscal hardship, the State

could not take revenue derived from locally imposed taxes, such as parcel taxes, hotel taxes, utility taxes, and sales taxes, for State purposes, nor could the State delay distribution of tax revenues to local governments, redirect redevelopment agency property tax revenue to other local governments such as school districts, or shift money to the school districts under an ERAF. As a result, the State would have to take other actions to balance its budget in some years, such as reducing State spending or increasing State taxes. Proposition 22's restriction of the State's ability to shift local funds made K-14 school districts more directly dependent on the State general fund for Proposition 98 funding.

Temporary State Tax Increases

From 2008 to 2012, the State eliminated more than \$56 billion from State and local funding for local services including education, police, fire, and health care. Proposition 30 (2012) allows the State to levy a temporary sales tax (lasting four years) and income tax on high-income earners (lasting seven years), the revenues of which are dedicated to increased education funding and to balance the State budget. Existing law requires that in years in which the State's general fund revenues grow by a large amount, funding for education must also be increased by a large amount. The tax revenues allocated to education as part of the minimum guarantee are deposited into the Education Protection Account ("EPA"), recalculated and distributed quarterly to K-14 school districts (89 percent to K-12 school districts and 11 percent to community college districts) as a continuing appropriation not subject to budget adoption. The funds are distributed in the same manner as existing unrestricted per-student funding. The Proposition 30 tax revenue is included in the Proposition 98 calculation, raising the guarantee by billions each year. The remaining Proposition 30 tax revenues will be used to balance the budget.

Proposition 55 (2016) extends the income tax increase on high-income taxpayers through the year 2030-31. Approximately half of the revenue raised by this measure is allocated to K-14 school districts. The measure also directs half of any excess revenues, up to a maximum of \$2 billion, for additional funding for Medi-Cal, if revenues exceed the constitutionally required education spending and the costs of government programs in place as of January 1, 2016. A portion would also be saved in reserves and spent on debt payments. Any remaining revenues would be available for any State purpose.

Enacted Budget Required for Disbursement of State Funds

In years in which the State Legislature has not enacted a budget by the required deadline, the fiscal year begins without an enacted budget, and the State has, in some cases, issued registered warrants or IOUs, to pay certain State employees' wages and State debts. In 1988, during such a budgetary impasse, a taxpayers' association argued that such warrants were not authorized without an enacted budget. In the case, known as *Jarvis v. Connell*, the State Court of Appeal held that without an enacted budget, State funds may not be disbursed unless the payment is authorized by the State Constitution, as a continuing appropriation, or by federal mandate. This could affect school district budgets to the extent that, if there is neither an enacted budget nor emergency appropriation, State payments owed to school districts could be delayed unless they are required as a continuing appropriation or federal mandate.

State and School District Budgetary Reserves

Proposition 58 (2004) amended Article IV of the State Constitution to require the State to enact a balanced budget, in which estimated revenues would meet or exceed estimated expenditures in each year, and that mid-year adjustments be made if the budget fell out of balance. The law established the Budget Stabilization Account (the "BSA") in the State's general fund, which required a deposit of three percent of the State general fund each year.

Proposition 2 (2014) addressed the need for long-term financial stability in the State in the face of economic volatility by dedicating funds to pay down the State's debt, changing the State's reserve policies, and creating a separate budget reserve for K-14 school districts called the Public School System Stabilization Account (the "PSSSA"). The law reduced legislative discretion over the timetable for the repayment of State debts and required that 1.5 percent of the State general fund be deposited into the BSA annually, plus an additional amount when the State experiences spikes in capital gains tax revenue in excess of eight percent of State general fund revenues. The PSSSA, also funded with capital gains spikes, is drawn upon when the Proposition 98 minimum guarantee exceeds available State general fund and property tax revenues. Through 2030, half of the funds deposited each year into the BSA must be used to pay fiscal obligations such as budget loans and unfunded State level pension plans. Funds may be withdrawn from the BSA only for a disaster-related emergency or a fiscal emergency (which occurs if estimated resources in the current or upcoming fiscal year are insufficient to keep spending at the level of the prior three budgets adjusted for inflation and population). In the case of a recession, only half of the funds can be withdrawn.

As a result, a large amount of incremental gains in the State's general fund revenues are allocated to building reserves and repaying debt.

The State has a constitutional obligation to ensure that school districts continue to operate even in times of financial difficulty so that the education of students in the State is not disrupted. The State requires school districts to maintain a minimum reserve in their general fund's reserve for economic uncertainties to help school districts manage cash flow, address unexpected costs, save for large purchases, reduce costs of borrowing money, and mitigate the volatility in funding produced by the reliance on tax revenue funding sources. The minimum reserve amount required depends on the size of the school district's enrollment. Smaller school districts are required to keep a higher percentage of reserves because they are more easily overwhelmed by unexpected costs, such as a single major facility repair, which could deplete most of its reserves in a single year. School districts with enrollment of 300 or fewer students, which represent 25 percent of school districts in the State, must keep a minimum reserve of five percent of expenditures. School districts with enrollment of 301 to 1,000 students, which represent 17 percent of school districts in the State, must keep a minimum reserve of four percent. School districts with enrollment of 1,001 to 30,000 students, which represent 55 percent of school districts in the State, must keep a minimum reserve of three percent. School districts with enrollment of 30,001 to 400,000 students, which represent three percent of school districts in the State, must keep a minimum reserve of two percent. The one school district in the State with an enrollment of 400,001 or more students must keep a minimum reserve of one percent. Many school districts attempt to keep their reserve levels higher than State minimum requirements.

Senate Bill 858 (2014), enacted as trailing legislation to the fiscal year 2014-15 State budget, required K-12 school districts, in the event of a deposit by the State to the PSSSA, to reduce total assigned and unassigned reserves in the following year to no more than twice its minimum reserve for economic uncertainties, ranging from one to five percent of expenditures depending on the size of the school district. Senate Bill 751 (2018), signed into law on October 11, 2017 and effective January 1, 2018, makes certain changes to the cap on school district reserves, increasing both the State PSSSA deposit amount required to trigger the reserve cap (to three percent of State general fund revenues appropriated for K-12 school districts), and increasing the cap on individual school district reserves (to 10 percent of combined assigned and unassigned ending general fund balances). In addition, basic aid school districts and small school districts with fewer than 2,501 students are exempted from the cap. County education officials can exempt a school district from the cap if the school district demonstrates extraordinary fiscal circumstances, including undertaking multi-year infrastructure or technology projects. A smaller reserve could affect the school district's financial condition in the event of an economic downturn. The District cannot predict when a deposit to the PSSSA might occur or whether future legislation will be enacted that changes this requirement.

School Facilities Funding

The Leroy F. Greene School Facilities Act (1998) established the State Facilities Program ("SFP") to allocate funding grants based on proposals submitted by school districts for the new construction of or the modernization of existing school facilities, although the program has evolved to allow funding for other types of school facility needs including facility hardship, seismic mitigation, charter school facilities, relief of overcrowding, career technical education facilities, incentives for energy efficiency and high-performance architectural attributes, and joint-use programs with other government entities.

Funding for SFP grants comes from statewide general obligation bonds approved by the voters in the State. The State retires these bonds by making annual debt service payments. In fiscal year 2016-17, the State paid \$2.4 billion in debt service on previously issued K-12 facilities bonds and \$300 million in debt service on community college facilities bonds. Proposition 1A (1998) provided \$9.2 billion (\$6.7 billion for K-12 facilities), Proposition 47 (2002) provided \$13.2 billion (\$11.4 billion for K-12 facilities), Proposition 55 (2004) provided \$12.3 billion (\$10 billion for K-12 facilities), Proposition 1D (2006) provided \$10.4 billion (\$7.3 billion for K-12 facilities), and Proposition 51 (2016), the first initiative facilities bond measure, provides \$9 billion (\$6 billion for K-12 facilities).

Proposition 51 amends the Education Code, prescribing the fiscal allocation and purpose of the \$9 billion bond and establishing the 2016 State School Facilities Fund and the 2016 California Community College Capital Outlay Bond Fund in the State Treasury. Of the total amount, \$6 billion is allocated to K-12 facilities (half for new construction and half for modernization), \$500 million for charter schools, \$500 million for career technical education programs, and \$2 billion to community colleges.

In most cases, K-12 school and community college districts that receive funding for approved projects must match the funding with local funding according to the type of project. Projects for the purchase of land and new construction are matched evenly. Modernization projects require a match of 40 percent local funding to 60 percent State funding. If no local funding is

available, the school district can apply for additional grant funding. Community college projects do not have a specified contribution model and are determined individually. K-12 school and community college districts may sell local general obligation bonds to cover the school district's share of the cost of facility projects. K-12 school districts may also raise funds for facilities by charging fees on new development (community college districts may not). Both K-12 school and community college districts may also raise funds by parcel taxes and other methods used less frequently.

Impact of Future Legislation

Laws affecting school district funding and the power of State and local governments to raise and spend revenue have been subject to many changes as voters and lawmakers react to economic and political cycles. The complex patchwork of the many different provisions at times results in uncertainty regarding their operation or interpretation. Many of the laws discussed above were enacted through the State's initiative process. Initiative constitutional amendments may be changed only by another statewide initiative. Legislative constitutional provisions may be changed by a majority vote of both houses of the State Legislature and approval by the Governor, if the change furthers the purposes of the provision. The District cannot predict whether or when the voters in the State or the State Legislature will approve further legislation that could restrict the District's sources of revenue or its ability to spend that revenue, or require the District to appropriate additional revenue.

FUNDING OF PUBLIC EDUCATION IN THE STATE

Sources of Revenue for Public Education

There are four general sources of funding for K-12 public education in the State: State funding, the principal source of funding for most school districts, the federal government, local property taxes and other local funding sources. Proposition 13 eliminated the possibility of raising additional *ad valorem* property taxes above one percent for general-purpose school support, and the courts have declared that school districts may not charge fees for school-related activities, unless the charge is specifically authorized by law for a particular program or activity. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES" herein.

State Funding. Many school districts in the State receive the majority of their funds from the State. According to the State Legislative Analyst's Office (the "LAO"), State funding accounted for 59.7 percent of the State's K-12 public education funding in fiscal year 2018-19. There are three sources of State funds for K-12 public education: the Proposition 98 minimum guarantee, comprised of a combination of State general fund revenues and local property tax revenues, representing the majority (80 percent in fiscal year 2018-19) of State funding; additional State funds for targeted programs such as facilities and remaining categorical programs such as special education, nutrition, afterschool programs, and home-to-school transportation; and State lottery funds, a portion of which may only be used for instructional purposes. The Proposition 98 guaranteed minimum amount is set forth each year in the State budget. See "—The 2020-21 State Budget" herein.

More than 60 percent of the State's general fund revenue comes from personal income taxes, with capital gains taxes representing more than 10 percent of the State's general fund revenue, so a downturn in the stock market may significantly impact the State's general fund. Because funding for education in the State depends on the amount of money available in the State general fund, the linkage can result in significant volatility in education funding. For instance, during the recent recession in fiscal year 2011-12, State general fund revenues available for education funding were approximately eight percent less than the amount available four years prior. Provisions added to the State Constitution and statutes in 2013 and 2014 attempt to provide funding stability to public education by capturing spikes in capital gains revenue to use for paying down debts and obligations and to create reserves. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES" herein.

The State Revenue Limit was instituted in fiscal year 1973-74 to provide a mechanism to calculate the total amount of general-purpose revenue a school district, community college district or county office of education is entitled to receive from combined State and local sources per average daily attendance, known as its "revenue limit," and the funding from this calculation formed the bulk of school districts' income, and was annually increased to adjust for changes in the cost of living. The revenue limit for each school district or county office of education was funded first by the property tax revenue available to that entity, with the remaining balance filled by State funds. "Community-funded" school districts whose local property tax revenues exceeded their calculated revenue limit did not receive State revenue limit funding, although such school districts did

receive the constitutionally required minimum funding, or “basic aid” per pupil, and categorical State and federal aid that was restricted to specific programs and purposes.

In landmark legislation, the fiscal year 2013-14 State budget replaced revenue limit funding with the LCFF. The LCFF transfers control over spending decisions to local authorities, requiring community input about those spending decisions along with increased transparency and accountability for the outcomes of those decisions. The general-purpose funds for school districts are now funneled through LCFF, and funds received through categorical programs are greatly reduced. As under the revenue limit system, the amount a school district is entitled to receive for general-purpose LCFF funds is financed through the local property tax revenue available to the school district, with the remaining balance funded by the State.

Most public education funding from the State is provided through the LCFF, including approximately 80 percent of Proposition 98 funding for K-12 public education. As under the revenue limit system, school districts continue to receive funds based on the greater of prior year or current year ADA figures. Under LCFF, school districts across the State receive the same base grants for each grade span, based on ADA. In fiscal year 2019-20, the adjusted base grants were \$8,503 for kindergarten through third grade, \$7,818 for fourth through sixth grade, \$8,050 for seventh through eighth grade, and \$9,572 for ninth through twelfth grade. These figures include increases for class size reduction for kindergarten through third grade and career technical education for ninth through twelfth grade.

School districts receive a supplemental grant of 20 percent of the base grant for each student in the school district who is low-income, English-learner, or foster youth. Enrollment counts are “unduplicated,” such that students may not be counted as both English-learner and low-income (foster youth automatically meet the eligibility requirements for free or reduced-price meals, and are therefore not discussed separately). School districts with more than 55 percent enrollment of unduplicated students receive a concentration grant, an additional 50 percent of the base grant for each unduplicated student above the threshold, intended to address the additional academic challenges faced by such students when their peers are similarly disadvantaged. The supplemental and concentration grants are allocated so that as a school district’s proportion of unduplicated students increases, so does its total funding allocation. A school district in which 100 percent of enrollment is unduplicated students will receive 42.5 percent more total funding than a school district with no unduplicated students. The supplemental and concentration grant amounts are based on the unduplicated count of pupils divided by the total enrollment in the school district, based on the fall P-1 certified enrollment report. School districts have broad discretion to decide how to spend the base grant. The supplemental and concentration grants must be used to increase or improve services to the population they are intended to serve, although some services may be provided school district - or site-wide.

The implementation of LCFF began in fiscal year 2013-14, with full implementation planned by fiscal year 2020-21, but was completed ahead of schedule in fiscal year 2018-19. Until full implementation has occurred, the difference between the actual amount school districts receive in a year and the target amount they will receive as of full implementation is referred to as the “funding gap.” The funding gap is determined by the difference between the “funding floor,” or amount of funding a school district received the prior year, and the target amount of funding the school district will receive at full implementation. The funding floor consists of the deficated revenue limit for fiscal year 2012-13 divided by ADA multiplied by current year ADA, plus the sum of any categorical funding. Sufficient funding was available to fund 12 percent of the funding gap in fiscal year 2013-14, 33 percent of the remaining gap in fiscal year 2014-15, 53 percent of the remaining gap in fiscal year 2015-16, 57 percent of the remaining gap in fiscal year 2016-17, 43 percent of the remaining gap in fiscal year 2017-18, and 100 percent of the remaining gap in fiscal year 2018-19, bringing LCFF to full implementation in the sixth year of its implementation.

Under the “hold harmless” provision, no school district will receive less State aid than it received in fiscal year 2012-13. Most school districts will receive more funding at full implementation of LCFF than they did previously under the revenue-limit system. For some school districts, their per-pupil undeficated fiscal year 2012-13 funding was higher than their LCFF entitlement at full implementation. Such school districts will have their undeficated funding level restored through a supplemental ERT add-on payment. School districts that are eligible for ERT funding will receive the difference between their LCFF target and their LEA’s fiscal year 2012-13 undeficated funding, adjusted for cost-of-living increases.

Community-funded school districts continue to receive at least the amount of State funding they received in fiscal year 2012-13. Although community-funded school districts do not receive LCFF funding grants, they must comply with the regulations and accountability requirements of LCFF. Community-funded school districts also continue to receive the constitutionally guaranteed \$120 per-pupil minimum as well the \$200 per-pupil minimum from the EPA pursuant to Proposition 30 as additional revenue. The District is not a community-funded school district.

The State funds school districts in monthly installments based on calculations made in a series of three apportionments throughout the fiscal year. Each apportionment includes funding for the LCFF and for other State programs. The amount of

each apportionment is based on calculations made by each school district and reviewed by its county office of education. The Advance Principal Apportionment (“Advance Apportionment”), certified by July 20, sets forth the amount the school district will receive for the year, paid in a series of installments from August through January. The First Principal Apportionment (“P-1 Apportionment”), certified by February 20, set forth a new calculation based on the school district’s first period ADA determined as of December, for installments that will be paid to the school district from February through June. The Second Principal Apportionment (“P-2 Apportionment”), certified July 2, based on second period ADA determined as of April, recalculates the amount of the final installment for the fiscal year paid to the school district in July. At the close of the fourth quarter, a final annual recalculation (“Annual Apportionment”) provides an updated estimate of the prior year’s adjustment.

In addition, school districts receive a quarterly allocation of the tax revenue deposited in the EPA from the temporary tax increases associated with Proposition 30 and extended under Proposition 55. The funds in the EPA are allocated between K-12 school districts and community college districts by 89 percent and 11 percent, respectively, and entitlements are calculated based on the adjusted LCFF entitlement of the school district. The EPA funds received by an LCFF-funded school district count towards the school district’s LCFF funding entitlement; community-funded school districts also receive the \$200 per-pupil EPA funding. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES” herein.

The LCFF requires each school district to demonstrate that its spending decisions are producing the desired results of increased student performance as stated in each school district’s own LCAP. Each school district must create its own annually updated LCAP with input from teachers, parents and the community, including the parents or guardians of unduplicated students. School districts must review and share the results to determine whether spending achieved the goals stated in the LCAP, for each school site and for the school district as a whole. All school districts must use the State’s LCAP template beginning fiscal year 2014-15. The LCAP must include a description of the annual goals to be achieved for each student group for each State priority, including the content standards adopted by the SBE. The LCAP of each school district is overseen and approved by the county superintendent.

Charter schools must comply with LCFF and receive mostly the same funds as public schools, although calculation of targeted disadvantaged students differs somewhat to prevent abuse of the system. There are also differences in the process of LCAP adoption and assessment. In the case of a charter school that fails to perform according to its LCAP, the State is not required to provide the same support that a public school district or county office of education receives, and its charter can be revoked.

Federal Funding. According to the LAO, federal revenue accounted for approximately 8.1 percent of the State’s K-12 public education funding in fiscal year 2018-19. Most of these funds are designated for particular purposes. There are no unfunded federal education mandates; each is conditioned on a state’s voluntary decision to accept federal program funds. The primary source of federal supplemental education funding is the Elementary and Secondary Education Act (“ESEA”) (1965), enacted to address inequality in education. The previous authorization of ESEA, the No Child Left Behind Act (“NCLB”) (2001), expanded the federal government’s role and increased testing requirements to measure improvement. Most recently reauthorized under the Every Student Succeeds Act (“ESSA”) (2015), responsibility for school improvement has been shifted to the states. ESSA provides funding through six programs: Title I grants, tied to student assessment, to assist economically disadvantaged children; Title II grants for professional development; Title III grants for ancillary student services; Title IV grants for research and training; Title V grants for state departments; and Title VI grants for special education. Another significant source of federal funding for school districts is the Education for All Handicapped Children Act (“EHA”) (1975), enacted to support special education and related services, reauthorized by the Individuals with Disabilities Education Act (“IDEA”) (1990). The largest of the law’s three sections, Part B, authorizes grants to states and local school districts to offset special education costs. As of fiscal year 2017, IDEA federal funding covered 14.6 percent of the estimated excess cost of educating students with disabilities; the shortfall is assumed by states and local school districts.

Local Property Tax Revenue. According to the LAO, local property taxes revenue accounted for 20.8 percent of the State’s K-12 public education funding in fiscal year 2018-19. Property taxes are constitutionally limited to one percent of the property’s value, except to repay voter-approved debt.

Other Local Funds. According to the LAO, local miscellaneous revenue accounted for approximately 11.4 percent of the State’s K-12 public education funding in fiscal year 2018-19. There are several types of revenue a school district may receive from other local sources, including developer fees, parcel taxes, property lease revenues, and private donations. A school district may levy developer fees on new residential or commercial development within the school district’s boundaries to finance the construction or renovation of school facilities. A school district may, with two-thirds approval from local voters, levy special taxes on parcels to fund specific programs within the school district. A school district may lease or sell its unused

sites or facilities as another source of revenue. A school district may also seek contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses.

The State Budget Process

Under the State Constitution, money may be drawn from the California Centralized Treasury System (the “State Treasury”) only by an appropriation authorized by law. The primary source of annual appropriations authorizations is the budget act approved by the State Legislature and signed by the Governor (the “Budget Act”), which can provide for projected expenditures only to the amount of projected revenues and balances available from prior fiscal years.

The annual budget cycle begins when the Governor releases a proposed budget in January for the next fiscal year, which starts each July 1 and ends June 30. The Governor releases a revised budget in May based on new projections regarding State revenues and feedback from the State Legislature and other constituents. The State Constitution requires that the State Legislature pass the Budget Act by June 15 by majority approval from both Houses. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature.

Appropriations may also be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each House of the State Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each House of the State Legislature, and be signed by the Governor. The State Constitution or a State statute may also provide for continuing appropriations that are available without regard to fiscal year. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

The 2020-21 State Budget

When the Governor released the proposed State budget for fiscal year 2020-21 in January 2020, the State projected a general fund surplus of \$5.6 billion. By May 2020, when the May Revision to the Proposed 2020-21 State Budget (the “2020-21 May Revision”) was released, the State confronted a budget deficit of \$54.3 billion—a four-month swing of \$60 billion caused by the COVID-19 recession. The 2020-21 State Budget, signed into law by the Governor on June 29, 2020, brings the State’s resources and spending into balance while preserving reserves for future years through the following actions:

- *Reserves.* The 2020-21 State Budget draws down \$8.8 billion in reserves from the Budget Stabilization Account (\$7.8 billion), the Safety Net Reserve (\$450 million) and all of the funds in the PSSSA.
- *Spending Triggers.* The 2020-21 State Budget includes \$11.1 billion in spending reductions and deferrals (including \$6.6 billion in deferred funding for schools) that will be restored if at least \$14 billion in federal 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.
- *Federal Funding.* The 2020-21 State Budget relies on \$10.1 billion in federal funds that provide State general fund relief, including \$8.1 billion already received.
- *Increased 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 are projected to generate \$4.4 billion in incremental revenues in fiscal year 2020-21.
- *Borrowing/Transfers/Reduction.* The 2020-21 State Budget relies on \$9.3 billion in special fund borrowing and transfers as well as other deferrals for K-14 schools. Approximately \$900 million in additional special fund borrowing is associated with the reductions to employee compensation and is contained in the trigger.
- *Cancelled Expansions, Updated Assumptions and Other Solutions.* The remaining \$10.6 billion of budget solutions includes cancelling multiple program expansions, anticipating increased government efficiencies, higher ongoing revenues above those forecast in the 2020-21 May Revision, and lower health and human services caseload costs than those forecast in the 2020-21 May Revision.

Under the 2020-21 State Budget, State general fund revenues and transfers total \$139.8 billion, a 0.1 percent increase from revised fiscal year 2019-20 estimates. The following table from the State Department of Finance identifies State general fund revenue sources in the 2020-21 State Budget.

**State General Fund Revenue Sources
2020-21 State Budget**

	2019-20 <u>Revised</u> (Millions)	2020-21 <u>Enacted</u> (Millions)	Dollar <u>Change</u> (Millions)	Percent <u>Change</u>
Personal Income Tax	\$95,566	\$77,567	(\$17,999)	(18.8%)
Sales and Use Tax	24,941	20,583	(4,358)	(17.5)
Corporation Tax	13,870	16,534	2,664	19.2
Insurance Tax	3,052	2,986	(66)	(2.2)
Alcohol Beverage Taxes and Fees	385	389	4	1.0
Cigarette Tax	58	56	(2)	(3.2)
Motor Vehicle Fees	31	40	9	27.4
Other	<u>1,842</u>	<u>11,758</u>	<u>9,916</u>	<u>538.3</u>
Subtotal	\$139,745	\$129,913	(\$9,832)	(7.0%)
Transfer to the Budget Stabilization Account	<u>(2,120)</u>	<u>7,806</u>	<u>9,926</u>	<u>468.2</u>
Total	\$137,625	\$137,710	\$94	0.1%

Source: The State Department of Finance.

State general fund expenditures in fiscal year 2020-21 are budgeted to be \$133.9 billion, a decrease of \$13.0 billion (8.9 percent) from revised fiscal year 2019-20 levels. The 2020-21 State Budget includes estimated spending of \$5.7 billion to respond directly to the COVID-19 pandemic, of which the State expects to be reimbursed for approximately 75 percent.

The State budgets ending fiscal year 2020-21 with \$2.6 billion in the Special Fund for Economic Uncertainties (SFEU) reserve, \$8.3 billion in the Budget Stabilization Account and \$450 million in the Safety Net Reserve. Included within the Special Fund for Economic Uncertainties is a \$716 million reserve so the State can respond to the changing conditions of the COVID-19 pandemic.

The following table from the State Department of Finance identifies historical and budgeted State general fund revenues and expenditures under the 2020-21 State Budget.

**State General Fund
2020-21 State Budget**

	2019-20 <u>Revised</u> (Millions)	2020-21 <u>Enacted</u> (Millions)
Prior-year Fund Balance	\$11,280	\$1,972
Revenues and Transfers	<u>137,625</u>	<u>137,719</u>
Total Resources Available	\$148,905	\$139,691
Non-Proposition 98 Expenditures	\$94,277	\$88,834
Proposition 98 Expenditures	<u>52,656</u>	<u>45,066</u>
Total Expenditures	\$146,933	\$133,900
Fund Balance	\$1,972	\$5,791
Encumbrances	3,175	3,175
Special Fund for Economic Uncertainties	(1,203)	2,616
COVID Reserve	--	(716)
Safety Net Reserve	\$900	\$450
Budget Stabilization Account	16,116	8,310

Source: The State Department of Finance.

Education Funding. The 2020-21 State Budget includes total K-12 education funding of \$98.8 billion (\$48.1 billion from the State general fund and \$50.7 billion from other State funds) in fiscal year 2020-21. The 2020-21 State Budget estimates Proposition 98 funding levels of \$78.5 billion, \$77.7 billion, and \$70.9 billion in fiscal years 2018-19, 2019-20, and 2020-21, respectively. For K-12 schools, this results in Proposition 98 per pupil spending of \$10,654 in fiscal year 2020-21—a \$1,339 decrease over fiscal year 2019-20 per pupil spending levels. Additionally, in the same period, per pupil spending from all State, federal, and local sources decreases by approximately \$542 per pupil to \$16,881. Due to declining State general fund revenues, the constitutional Proposition 98 guarantee level of \$70.9 billion for fiscal year 2020-21 is more than \$10 billion below the minimum guarantee for fiscal 2019-20 at the time the 2019-20 State Budget was enacted.

To mitigate the negative impacts of the State’s revenue decline on funding for local education agencies, the 2020-21 State Budget includes the following provisions:

- *Deferrals.* The 2020-21 State Budget includes \$1.9 billion of LCFF apportionment deferrals in fiscal year 2019-20, growing to \$11 billion of LCFF apportionment deferrals in fiscal year 2020-21. These deferrals allow fiscal year 2020-21 LCFF funding to remain at fiscal year 2019-20 levels—the 2020-21 State Budget suspends the statutory LCFF cost-of-living adjustment in fiscal year 2020-21. \$5.8 billion of the fiscal year 2020-21 deferrals will be triggered off if the federal government provides sufficient funding that can be used for this purpose.
- *Learning Loss Mitigation.* The 2020-21 State Budget includes a one-time investment of \$5.3 billion (\$4.4 billion federal Coronavirus Relief Fund, \$539.9 million Proposition 98 State general fund, and \$355.2 million federal Governor’s Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures. Funds will be allocated to local educational agencies on an equity basis, with an emphasis on ensuring the greatest resources are available to local educational agencies serving students with the greatest needs.
- *Supplemental Appropriations.* In fiscal years 2019-20 and 2020-21, the Proposition 98 funding level drops below the target funding level (Test 2) by a total of approximately \$12.4 billion. To accelerate the recovery from this funding reduction, the 2020-21 State Budget provides supplemental appropriations above the constitutionally-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

percent of State general fund revenues per year, up to a cumulative total of \$12.4 billion. Proposition 98 currently guarantees that K-14 local education agencies receive approximately 38 percent of State general fund revenues in Test 1 years. The supplemental appropriations included in the 2020-21 State Budget increase this share of funding to 40 percent by fiscal year 2023-24.

- *Revised PERS and STRS Contributions.* To provide local educational agencies with increased fiscal relief, the 2020-21 State Budget redirects \$2.3 billion appropriated in the 2019-20 State Budget to STRS and PERS for long-term unfunded liabilities to reduce employer contribution rates in fiscal years 2020-21 and 2021-22. This reallocation reduces the STRS employer rate from 18.41 percent to approximately 16.15 percent in fiscal year 2020-21 and from 17.9 percent to 16.02 percent in fiscal year 2021-22. The PERS Schools Pool employer contribution rate is reduced from 22.67 percent to 20.7 percent in fiscal year 2020-21 and from 24.6 percent to 22.84 percent in fiscal year 2021-22.
- *Federal Funds.* In addition to the federal Coronavirus Relief Fund and Governor's Emergency Education Relief Fund allocated to K-12 education, the 2020-21 State Budget appropriates \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds that the State was recently awarded. Of this amount, 90 percent (\$1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive to be used for COVID-19 related costs.
- *Temporary Revenue Increases.* The 2020-21 State Budget proposes the temporary three-year suspension of net operating losses and limitation on business incentive tax credits to offset no more than \$5 million of tax liability per year. This, along with other tax changes, generates a net \$4.3 billion in State general fund revenues and approximately \$1.6 billion in benefit to the Proposition 98 minimum guarantee.
- *Special Education.* The 2020-21 State Budget increases special education base rates to \$625 per pupil pursuant to a new funding formula, apportioned using the existing hold harmless methodology, and provides \$100 million to increase funding for students with low-incidence disabilities.
- *Average Daily Attendance.* To ensure funding stability regardless of the instructional model (in-classroom, distance learning, or a combination of both), the 2020-21 State Budget includes a hold harmless for the ADA used to calculate school funding for all local educational agencies. Specifically, ADA for fiscal year 2020-21 will be based on the 2019-20 year (except for new charter schools), and local educational agencies are exempted from the annual minimum instructional minutes requirement. Further, while minimum daily instructional minutes and minimum instructional day requirements are maintained, they may be met through a combination of in-person and distance learning instruction. Additionally, the 2020-21 State Budget includes requirements for distance learning to ensure that, when in-person instruction is not possible, students continue to receive access to a quality education via distance learning.
- *Employee Protections.* To ensure the continuity of employment for essential school staff during the COVID-19 pandemic, the 2020-21 State Budget includes the suspension of the August 15, 2020, layoff window for teachers and other non-administrative certificated staff as well as the suspension of layoffs for classified staff working in transportation, nutrition, and custodial services from July 1, 2020 through June 30, 2021. The 2020-21 State Budget also includes 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.

LAO Fiscal Outlook

On November 18, 2020, the LAO released "The 2021-22 Budget: The Fiscal Outlook for Schools and Community Colleges." As a result of higher year-to-date State revenues compared to the assumptions used to prepare the 2020-21 State Budget, the LAO estimates that the fiscal year 2020-21 Proposition 98 guarantee will be \$13.1 billion (18.5 percent) more than the Proposition 98 guarantee funded in the 2020-21 State Budget. The LAO further estimates that the fiscal year 2021-22 Proposition 98 guarantee will be an additional \$595 million (0.7 percent) more than the LAO's revised estimate for fiscal year 2020-21. Under a law enacted in June 2020, the State would also be required to make a \$2.3 billion supplemental payment on top of the Proposition 98 guarantee in fiscal year 2021-22.

Governor's Proposed 2021-22 Budget

On January 8, 2021, the Governor released the proposed State budget for fiscal year 2021-22 (the "Proposed 2021-22 State Budget"). Reflecting the State's improved economic outlook, the State would end fiscal year 2021-22 with \$18.9 billion in total reserves under the Proposed 2021-22 State Budget, an increase of \$7.5 billion over levels in the 2020-21 State Budget. However, as noted in the Proposed 2021-22 State Budget, budget resiliency will be critical to protect programs in the future, as expenditures are projected to grow faster than revenues, with a structural deficit of \$7.6 billion for fiscal year 2022-23 projected to grow to more than \$11 billion by fiscal year 2024-25.

The Proposed 2021-22 State Budget sets out revised estimated prior year State general fund revenues (including transfers) of \$140.6 billion for fiscal year 2019-20 and \$162.7 billion for fiscal year 2020-21, and projects State general fund revenues of \$158.7 billion for fiscal year 2021-22. The proposal sets out revised estimated State general fund expenditures of \$146.6 billion for fiscal year 2019-20 and \$155.9 billion for fiscal year 2020-21, and projects State general fund expenditures of \$164.5 billion for fiscal year 2021-22.

The Proposed 2021-22 State Budget sets forth revised projected total ending reserves for fiscal year 2020-21 of \$22.0 billion, including \$12.5 billion in the Budget Stabilization Account, \$9.0 billion in the Special Fund for Economic Uncertainties (SFEU) and \$450 million in the Safety Net Reserve. For fiscal year 2021-22, the Proposed 2021-22 State Budget projects total ending reserves of \$18.9 billion, an increase of \$7.5 billion from the 2020-21 State Budget. This includes a \$3.0 billion deposit to the Budget Stabilization Account for fiscal year 2021-22 for an ending balance of \$15.6 billion. The Proposed 2021-22 State Budget also projects an ending balance of \$2.9 billion in the Special Fund for Economic Uncertainties reserve and \$450 million in the Safety Net Reserve.

Included in the Proposed 2021-22 State Budget are several initiatives for immediate action, including the following:

- *Immediate Relief to Individuals and Small Business.* The Proposed 2021-22 State Budget proposes \$3 billion of pandemic relief for immediate action, including \$2.4 billion for a \$600 payment to low-income workers, \$575 million for grants to small businesses and small non-profit cultural institutions disproportionately impacted by the pandemic, and immediate and targeted fee relief for certain impacted industries.
- *Safe Reopening of Schools.* The Proposed 2021-22 State Budget proposes \$2 billion for the safe reopening of schools, with a priority to returning the youngest children and those with greatest needs. This funding is proposed to be available on a per-pupil basis for all county schools, school districts and charter schools (with the exception of non-classroom based charter schools and independent study programs) that are open for in-person instruction by specified dates.
- *Expanded Learning Time and Academic Intervention Grants.* An additional \$4.6 billion of Proposition 98 State general fund appropriations are proposed for extended learning time, including summer school programs and other strategies to address the pandemic's impact on student learning, focusing on low-income families, English language learners, youth in foster care, and homeless youth.

The following table sets forth a summary of the State's general fund budget for fiscal years 2019-20, 2020-21 and 2021-22.

**State General Fund
Proposed 2021-22 State Budget**

	2019-20 <u>Revised</u> (Millions)	2020-21 <u>Revised</u> (Millions)	2021-22 <u>Proposed</u> (Millions)
Prior-year Fund Balance	\$11,292	\$5,359	\$12,203
Revenues and Transfers	140,623	162,742	158,730
Expenditures	<u>146,556</u>	<u>155,898</u>	<u>164,516</u>
Ending Fund Balance	\$5,359	\$12,203	\$6,058
Encumbrances	3,175	3,175	3,175
SFEU Balance	2,184	9,028	2,883
Reserves			
Budget Stabilization Account	\$17,120	\$12,536	\$15,574
Special Fund for Economic Uncertainties	2,184	9,028	2,883
Safety Net Reserve	<u>900</u>	<u>450</u>	<u>450</u>
Total Reserves	\$20,204	\$22,014	\$18,907

Totals may not foot due to rounding.

Source: The State Legislative Analyst's Office.

Education Funding. The Proposition 98 minimum guarantee for K-14 education funding in the State is met each year through a combination of State general fund and local property tax revenue. Each budget cycle, the Proposition 98 minimum guarantee estimates for the prior, current and upcoming year are revised. Proposition 98 funding levels for fiscal years 2019-20 and 2020-21 in the Proposed 2021-22 State Budget increased from the 2020-21 State Budget funding levels by \$1.9 billion and \$11.9 billion respectively, due almost exclusively to increased State general fund revenues. The Proposed 2021-22 State Budget includes fiscal year 2021-22 Proposition 98 funding of \$85.8 billion, \$14.9 billion above the level funded in the 2020-21 State Budget and the highest funding level ever. 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 under the Proposed 2021-22 State Budget—the highest levels ever. The decrease in per-pupil expenditures from fiscal year 2020-21 to 2021-22 reflects the significant allocation of one-time federal funds in fiscal year 2020-21.

The following table from the LAO identifies historical and budgeted Proposition 98 funding under the Proposed 2021-22 State Budget.

**Proposition 98 Funding
Proposed 2021-22 State Budget**

	2019-20 <u>Revised</u> (Millions)	2020-21 <u>Revised</u> (Millions)	2021-22 <u>Proposed</u> (Millions)	Change from 2020-21 <u>Amount</u> (Millions)	<u>Percent</u>
Proposition 98 Funding					
Minimum guarantee	\$79,544	\$82,828	\$85,796	\$2,967	3.6%
Supplemental payment	--	--	<u>2,310</u>	<u>2,310</u>	--
Total	\$79,544	\$82,828	\$88,105	\$5,277	6.4%
Funding By Segment					
K-12 Education	\$70,230	\$72,494	\$75,854	\$3,360	4.6%
Community Colleges	9,313	9,588	10,011	423	4.4
Reserve Deposit	--	747	2,241	1,494	--
Funding By Source					
General Fund	\$54,470	\$56,942	\$60,835	\$3,894	6.8%
Local Property Tax Revenue	25,073	25,887	27,270	1,383	5.3

Figures may not total due to rounding.

Source: The State Legislative Analyst's Office.

Significant features of the Proposed 2021-22 State Budget affecting K-12 public schools include the following:

- *Deferrals.* Revenue reductions anticipated in the 2020-21 State Budget created the need to defer \$1.9 billion of LCFF funding in fiscal year 2019-20 and an additional \$11 billion of LCFF funding in fiscal year 2020-21. The Proposed 2021-22 State Budget would repay in full the fiscal year 2019-20 deferral and \$7.3 billion of the fiscal year 2020-21 deferral, leaving an ongoing deferral balance of \$3.7 billion in fiscal year 2021-22. At this new lower level, local education agencies would experience only a few weeks of delay in receiving fiscal year 2021-22 apportionments (as opposed to 10 months of delay in fiscal year 2020-21).
- *Cost of Living Adjustment.* Due to a significant reduction in available revenues, the 2020-21 State Budget did not provide a statutory COLA for LCFF for fiscal year 2020-21. The Proposed 2021-22 State Budget would fund LCFF in fiscal year 2021-22 with both the fiscal year 2020-21 COLA (2.31 percent) and the fiscal year 2021-22 COLA (1.5 percent), creating a 3.84 percent COLA. This increase brings total LCFF funding to \$64.5 billion, and funds all local education agencies at their full LCFF target level.
- *PSSSA Deposit.* The Proposed 2021-22 State Budget projects that significant growth in capital gains and overall State general fund revenues would trigger deposits into the PSSSA of \$747 million in fiscal year 2020-21 and \$2.2 billion in fiscal year 2021-22, bringing the balance in the PSSSA to \$3 billion. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 guarantee (approximately \$2.3 billion). The projected balance in the PSSSA in fiscal year 2021-22 would trigger the cap on school district reserves beginning in fiscal year 2022-23.
- *Supplemental Payment.* The 2020-21 State Budget included a multi-year plan to supplement Proposition 98 funding and mitigate projected declines due to State revenue reductions. The 2020-21 State Budget included supplemental appropriations beginning in fiscal year 2021-22 equal to 1.5 percent of State general fund revenues per year, up to \$12.4 billion. The 2020-21 State Budget also proposed to increase K-14 education's share of the State general fund from 38 percent of the State general fund in Test 1 years to 40 percent. Given the increase in State revenues from those projected in the 2020-21 State Budget, the Proposed 2021-22 State Budget would remove the supplemental payments; however, in

recognition of the extraordinary needs of the public school system as a result of the COVID-19 pandemic, the Proposed 2021-22 State Budget includes a one-time supplementary payment of \$2.3 billion in fiscal year 2021-22.

- *STRS / PERS Contributions.* The 2019-20 State Budget included \$850 million in one-time State general fund payments to buy down local education agency employer contribution rates to STRS and PERS in fiscal years 2019-20 and 2020-21 as well as a one-time \$2.3 billion payment to reduce the employers' share of the long-term unfunded liability. The 2020-21 State Budget redirected the \$2.3 billion one-time unfunded liability reduction payment to further reduce employer contribution rates in fiscal years 2020-21 and 2021-22. For fiscal year 2021-22, STRS would apply \$820 million to reduce the employer rate from 18.1 percent to approximately 15.92 percent, and PERS would apply \$330 million to reduce the employer rate from 24.9 percent to 23 percent.
- *Hold Harmless.* The 2020-21 State Budget included a hold harmless for the ADA used to calculate school funding for all local educational agencies. The Proposed 2021-22 State Budget does not include a new hold harmless provision for fiscal year 2021-22. However, because of the ADA hold harmless provided in the 2020-21 State Budget, local education agencies that experience enrollment declines in fiscal year 2021-22 would retain the ability to receive apportionment based on the higher of their fiscal year 2019-20 or 2020-21 ADA, pursuant to the existing hold harmless provision included in the LCFF statute.
- *Investing in Educators.* The Proposed 2021-22 State Budget includes a comprehensive \$315.3 million package for educator professional training, with emphasis on developing quality training in high need areas and providing timely access to training. In addition, the Proposed 2021-22 State Budget includes \$225 million to improve the State's teacher pipeline.
- *Special Education.* The Proposed 2021-22 State Budget builds on prior year investments in special education by proposing a \$300 million ongoing Proposition 98 State general fund appropriation for the Special Education Early Intervention Grant to increase evidence-based services for infants, toddlers, and preschoolers and a \$5 million one-time Proposition 98 State general fund appropriation to establish professional learning networks.
- *Community Schools.* The Proposed 2021-22 State Budget includes a \$264.9 million one-time Proposition 98 State general fund appropriation to enable local education agencies to expand existing networks of community schools and establish new community schools, and to coordinate services to these schools with priority given to high-poverty communities.
- *Student Mental Health.* The Proposed 2021-22 State Budget proposes a \$400 million one-time appropriation of a mix of federal funds and State general fund appropriations, available over multiple years, to implement an incentive program through Medi-Cal Managed Care Plans, administered by county behavioral health departments and schools, to increase the number of students receiving preventive care and early intervention behavioral health services from schools, providers in schools and school-based health centers.
- *Early Learning.* To encourage more local education agencies to offer TK to younger children, the Proposed 2021-22 State Budget includes a \$250 million one-time appropriation available over multiple years to encourage expansion of transitional kindergarten to younger children.

Future Budgets

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures 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 over which the District will have no control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools as budgeted. State budget shortfalls in future fiscal years could have an adverse financial impact on the District.

For more information on the State budget, please refer to the State Department of Finance's website at www.dof.ca.gov and to the LAO's website at www.lao.ca.gov. The District takes no responsibility for the continued accuracy of these Internet addresses or for the accuracy, completeness or timeliness of the information presented therein, and such information is not incorporated herein by such reference.

LEGAL MATTERS

Litigation

[There is no action, suit or proceeding known by the District to be pending or threatened restraining or enjoining the sale or delivery of the Bonds, or in any way contesting or affecting the validity thereof or any proceeding of the District taken with respect to the issuance or sale of the Bonds, or the pledge or application of moneys or security provided for the payment of the Bonds, or the authority of the County to levy *ad valorem* property taxes to pay principal of and interest on the Bonds when due.]

The District may be or may become a party to lawsuits and claims which are unrelated to the Bonds or actions taken with respect to the Bonds and which have arisen in the normal course of operating the District. The District maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. In the opinion of the District, there currently are no claims or actions pending which could have a material adverse effect on the financial position or operations of the District. The District cannot predict what types of claims may arise in the future.

Legal Opinion

The proceedings in connection with the authorization, sale, execution and delivery of the Bonds are subject to the approval as to their legality of Lozano Smith, LLP, Sacramento, California, Bond Counsel. The form of the legal opinion of Bond Counsel is attached hereto as “APPENDIX C—FORM OF OPINION OF BOND COUNSEL.”

Bond Counsel’s employment is limited to a review of the legal proceedings required for authorization of the Bonds and to rendering the aforementioned opinion. Bond Counsel has not been engaged by the District to undertake, and has not undertaken, any responsibility for the accuracy, completeness, or fairness of this Official Statement, and the opinion of Bond Counsel will not extend to any documents, agreements, representations, offering circulars, official statements or other material of any kind concerning the Bonds that are not referred to in the aforementioned opinion. The fees of Bond Counsel are contingent upon the issuance and delivery of the Bonds.

Limitations on Remedies; Amounts Held in the County Pool

The opinion of Bond Counsel with respect to the enforceability of the rights of the Registered Owners and Beneficial Owners is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor’s rights. Bankruptcy proceedings, if initiated, could subject the Registered Owners and Beneficial Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

A number of appeals are currently pending before the United States Court of Appeals for the First Circuit involving issues relating to the treatment and scope of special revenues in the insolvency proceedings of Puerto Rico. The decisions in these appeals may or may not affect the treatment or scope of special revenues in bankruptcy cases. It is not possible to predict the outcomes or the effects of the outcomes in these appeals, and the District cannot predict if or how the ruling in the pending appeals may affect the treatment or scope of special revenues in bankruptcy cases.

The County on behalf of the District is expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Bonds and may invest these funds in the County Pool, as described under the caption “SACRAMENTO COUNTY POOLED INVESTMENT FUND” herein and in “APPENDIX D—SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY” attached hereto. In the event the District or the County were to go into bankruptcy, a federal bankruptcy court might hold that the Registered Owners and Beneficial Owners are unsecured creditors with respect to any funds received by the District or the County prior to the bankruptcy, which may include taxes that have been collected and deposited into the Interest and Sinking Fund, where such amounts are deposited into the County Pool, and such amounts may not be available for payment of the principal of and interest on the Bonds unless the Registered Owners and Beneficial Owners can “trace” those funds. There can be no assurance that the Registered Owners and Beneficial Owners could successfully so “trace” such taxes on deposit in the Interest and Sinking Fund where such amounts are invested in the County Pool. The District Resolution and the Government Code require the County to annually levy *ad valorem* property taxes upon

all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds.

Legality for Investment in California

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

TAX MATTERS

The following discussion of federal income tax matters written to support the promotion and marketing of the Bonds was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding federal tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

In the opinion of Lozano Smith, LLP, Sacramento, California, 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 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 Bonds is not a specific preference item for purposes of federal alternative minimum taxes.

A complete copy of the proposed form of opinion of Bond Counsel is set forth in "APPENDIX C—FORM OF OPINION OF BOND COUNSEL" attached hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 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 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 Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. The amount of tax-exempt interest received and a Beneficial Owner's basis in a Premium Bond, however, 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 Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 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 Bonds may adversely affect the value of, or the tax status of interest on, the 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 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 interest on, the 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 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. For example, future legislative proposals could limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarifications of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the 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 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 Bonds ends with the issuance of the 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 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 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 Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

RATINGS

Fitch has assigned a municipal bond rating of "___" to the Bonds, and Moody's Investors Service, Inc. ("Moody's") has assigned a municipal bond rating of "___" to the Bonds. Such ratings reflect only the views of Fitch and Moody's, and an explanation of the significance of such rating may be obtained from Fitch and Moody's, respectively. Each rating agency may have obtained and considered information and material which has not been included in this Official Statement. Generally, rating agencies base their ratings on information and material so furnished and on investigations, studies and assumptions made by them. The ratings are not a recommendation to buy, sell or hold the Bonds. There is no assurance that any such rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely by the rating agency if, in the judgment of the rating agency, circumstances so warrant. The District has not undertaken any responsibility to assure the maintenance of the ratings or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL ADVISOR

Government Financial Strategies inc. has been employed by the District to perform municipal advisory services in relation to the sale and delivery of the Bonds. Government Financial Strategies inc., in its capacity as Municipal Advisor, has prepared this Official Statement. Government Financial Strategies inc. has not, however, independently verified nor confirmed all of the information contained within this Official Statement. Government Financial Strategies inc. will not participate in the underwriting of the Bonds. Fees charged by Government Financial Strategies inc. are not contingent upon the sale of the Bonds.

INDEPENDENT AUDITOR

The financial statements of the District as of and for the year ended June 30, 2020, have been audited by Crowe LLP, Sacramento, California, and are set forth in “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2020” attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not been engaged to perform and has not performed, since the date of its report attached hereto, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

UNDERWRITING AND INITIAL OFFERING PRICE

Following a competitive sale process, the Bonds will be purchased by _____ (the “Underwriter”) pursuant to a bond purchase agreement (the “Bond Purchase Agreement”) by and between the District and the Underwriter, at a price of \$_____ (equal to the principal amount of the Bonds of \$_____, plus a net original issue premium of \$_____, less an underwriting discount of \$_____). The Underwriter’s obligation to purchase the Bonds is subject to certain terms and conditions set forth in the Bond Purchase Agreement.

The Underwriter intend to offer the Bonds to the public at the initial offering prices and yields stated on the inside cover page hereof. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than said public offering prices. The offering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District will covenant for the benefit of the Underwriter, the Registered Owners and the Beneficial Owners of the Bonds to annually provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than nine months after the end of the fiscal year, commencing with the report for fiscal year 2020-21 (which is due no later than March 31, 2022), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of certain enumerated events will be filed by the District with the MSRB through its EMMA website. The specific nature of the information to be contained in the Annual Report and the notices is specified in “APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. These covenants are being made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

In the past five years, the District has not complied in all material respects with its previous undertakings with regard to said Rule to provide annual reports and notices of significant events. Due to administrative oversight in connection with the continuing disclosure requirements of its outstanding debt, the following notice of significant events was posted more than 10 business days after its occurrence:

- On November 16, 2016, Moody’s upgraded the underlying rating of the 2008 Bonds. Notice of the upgrade was filed on May 8, 2017.

Procedures have been implemented to prevent such administrative oversight from recurring. Such procedures have been amended in response to two new event notices that were added effective February 27, 2019 to the list of events for which

notice is required by the Rule. As of the date of this Official Statement, the District believes that it has made all required filings in the past five years for currently outstanding issues in connection with prior undertakings under the Rule. [TO CONFIRM]

ADDITIONAL INFORMATION

Additional information concerning the District, the Legal Documents or other matters concerning the sale and delivery of the Bonds may be obtained by contacting Elk Grove Unified School District, 9510 Elk Grove-Florin Road, Elk Grove, California 95624, telephone (916) 686-7722, Attention: Deputy Superintendent, Business Services and Facilities or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

All of the preceding summaries of the Bonds, the Legal Documents, and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith. Further, this Official Statement does not constitute a contract with the purchasers of the Bonds, and any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the District has been duly authorized by the District Board.

Elk Grove Unified School District

By: _____
Christopher R. Hoffman
Superintendent

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

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

[TO COME]

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$[_____]
ELK GROVE UNIFIED SCHOOL DISTRICT
(Sacramento County, California)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2021

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Elk Grove Unified School District (the “District”) in connection with the issuance of the above-captioned bonds (the “Bonds”).

The Bonds are being issued under a resolution adopted by the Board of Education of the District on [March 23, 2021] (the “Resolution”). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with the Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5).

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

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

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

“*Dissemination Agent*” means, initially, [the District, acting as its own Dissemination Agent,]/[DISSEMINATION AGENT] or any successor Dissemination Agent designated in writing by the District and that has filed with the District a written acceptance of such designation. If at any time there is not any other designated Dissemination Agent, the District shall be the Dissemination Agent.

“*Financial Obligation*” means (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either of the foregoing (a) or (b). The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule.

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

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

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

Section 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide, to the MSRB, in an electronic format as prescribed by the MSRB, not later than each Annual Report Date, commencing no later than March 31, 2022 with the report for the 2020-21 Fiscal Year, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the Audit Report of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

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

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

- (1) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (2) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

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

(a) Audited financial statements (Audit Report) prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time Governmental Accounting Standards Board. If the District's Audit Report is not available by the Annual Report Date, then the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the Audit Report shall be filed in the same manner as the Annual Report when it becomes available.

(b) Unless otherwise provided in the Audit Report filed on or before the Annual Report Date, financial information and operating data with respect to the District for the most recently completed fiscal by the year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (1) the District's most recent approved annual budget;
- (2) the most recent assessed valuation of taxable properties in the District; and
- (3) if Sacramento County no longer includes the tax levy for payment of the Bonds in its Teeter Plan, the most recent property tax levies, collections; and delinquencies of the District, if and to the extent provided by Sacramento County to the District.

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

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the SEC. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or other obligated person, or the sale of all or substantially all of the assets of the District or other obligated person (other than in the ordinary course of business) the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (15) Incurrence of a Financial Obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District or other obligated person, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District or other obligated person, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in sections (a)(2), (a)(6) (other than adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB)), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), or (a)(15) above, and the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a) (6) (other than adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, or Notices of Proposed Issue (IRS Form 5701-TEB)), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14), and (a)(15) of this Section 5 contain the qualifier “if material.” The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event’s occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been

assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

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

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be [the District OR DISSEMINATION AGENT].] Any Dissemination Agent (if not the District) may resign by providing 30 days' written notice to the District.

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

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

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

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolution for amendments to the Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate specifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the

impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

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

Section 11. Default. If the District fails to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 13. Notices. Any notice or communications to be among any of the parties to this Disclosure Certificate may be given as follows:

To the Issuer: Elk Grove Unified School District
9510 Elk Grove-Florin Road
Elk Grove, California 95624
[Fax: (916) 686-7787]

To the Participating Underwriter: [UNDERWRITER]
[ADDRESS]
[CITY, STATE, ZIP]
[Fax: _____]

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of _____, 2021

ELK GROVE UNIFIED SCHOOL DISTRICT

By: _____
Deputy Superintendent, Business Services and
Facilities

[Designation as Dissemination Agent Accepted:

[FA/DISSEMINATION AGENT]

By _____
Its Authorized Officer]

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: ELK GROVE UNIFIED SCHOOL DISTRICT

Name of Issue: \$_____ General Obligation Bonds, Election of 2016, Series 2021.

Date of Issuance: _____, 2021

NOTICE IS HEREBY GIVEN that the Elk Grove Unified School District has not provided an Annual Report with respect to the above-named Bonds as required by the resolution adopted by the Board of Education of the District authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: [Form only]_____

ELK GROVE UNIFIED SCHOOL DISTRICT

By: [Form Only – no signature required]_____
Authorized Officer

[cc: [UNDERWRITER]]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the Bonds, Lozano Smith, LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[LETTERHEAD OF LOZANO SMITH]

_____, 2021

Board of Education
Elk Grove Unified School District
9510 Elk Grove-Florin Road
Elk Grove, California 95624

§ _____
**ELK GROVE UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS, ELECTION OF 2016, SERIES 2021**

FINAL OPINION OF BOND COUNSEL

Ladies and Gentlemen:

We have acted as Bond Counsel to the Elk Grove Unified School District (the “District”) in connection with the issuance by the District of its Elk Grove Unified School District (Sacramento County, California) General Obligation Bonds, Election of 2016, Series 2021, in the aggregate principal amount of \$_____ (the “Bonds”), issued under Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with section 53506 thereof (the “Bond Law”), and under a Resolution adopted by the Board of Education of the District on [March 23], 2021 (the “Bond Resolution”). The Bonds were sold to _____, as Underwriter (the “Underwriter”) pursuant to a Bond Purchase Agreement, dated _____, 2021 (the “Bond Purchase Agreement”), between the District and the Underwriter.

In such connection, we have examined the Bond Resolution, the Bond Law, the tax certificate, dated the date hereof and executed by the District (the “Tax Certificate”), the Bond Purchase Agreement, the Continuing Disclosure Certificate, dated the date hereof and executed by the District (the “Continuing Disclosure Certificate”), certificates of the District and others, and such other law, documents, opinions and matters to the extent we deemed necessary to render the opinions or conclusions set forth herein.

The opinions and conclusions herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities.

Limited Liability Partnership

One Capitol Mall, Suite 640 Sacramento, California 95814 Tel 916-329-7433 Fax 916-329-9050

Such opinions or conclusions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to herein. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Bond Resolution, the Tax Certificate, the Continuing Disclosure Certificate and the Bond Purchase Agreement, and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, dated _____, 2021.

Based upon and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions or conclusions:

1. The Bond Resolution has been duly adopted by the Board of Education of the District and the Bond Resolution constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.

2. The Bonds have been duly authorized, issued and sold by the District and are valid and binding general obligations of the District, and the Board of Supervisors of the County of Sacramento is obligated and authorized under the laws of the State of California to levy and collect *ad valorem* property taxes, without limit as to rate or amount (except with respect to certain personal property which is taxable at limited rates), upon the taxable property in the District for the payment when due of the principal of and interest on the Bonds.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Bond Resolution and the Tax Certificate and other instruments relating to the Bonds to comply with each of such requirements under the Code. Failure to comply with certain of such requirements under the Code may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

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

Except as expressly stated in the preceding paragraphs, we express no opinion as to any federal or state tax consequences arising with respect to the Bonds.

Our opinions are based on existing law, which is subject to change. The opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any fact or circumstance that may hereafter come to our attention or to reflect any change in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully Submitted,

LOZANO SMITH, LLP

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

SACRAMENTO COUNTY ANNUAL INVESTMENT POLICY

[THIS PAGE INTENTIONALLY LEFT BLANK]



SACRAMENTO COUNTY

Annual Investment Policy of the Pooled Investment Fund

CALENDAR YEAR 2021

*Approved by the
Sacramento County Board of Supervisors*

December 8, 2020
Resolution No. 2020-0783

Table of Contents

I.	Authority.....	1
II.	Policy Statement.....	1
III.	Standard of Care.....	1
IV.	Investment Objectives.....	1
	A. Safety of Principal	1
	B. Liquidity	2
	C. Public Trust	2
	D. Maximum Rate of Return	2
V.	Pooled Investment Fund Investors	2
VI.	Implementation	2
VII.	Internal Controls.....	3
VIII.	Sacramento County Treasury Oversight Committee.....	4
IX.	Investment Parameters.....	4
	A. Investable Funds	4
	B. Authorized Investments.....	5
	C. Prohibited Investments.....	5
	D. Credit Requirements	5
	E. Maximum Maturities	7
	F. Maximum Concentrations	8
	G. Repurchase Agreements.....	8
	H. Community Reinvestment Act Program	9
	I. Criteria and Qualifications of Brokers/Dealers and Direct Issuers.....	9
	J. Investment Guidelines, Management Style and Strategy	10
	K. Approved Lists	10
	L. Calculation of Yield and Costs.....	10
X.	Reviewing, Monitoring and Reporting of the Portfolio	10
XI.	Withdrawal Requests for Pooled Fund Investors.....	10
XII.	Limits on Honoraria, Gifts and Gratuities	10
XIII.	Terms and Conditions for Outside Investors	11
	Appendix A – Comparison and Interpretation of Credit Ratings.....	12

SACRAMENTO COUNTY
Annual Investment Policy
of the Pooled Investment Fund
CALENDAR YEAR 2021

I. Authority

Under the Sacramento County Charter, the Board of Supervisors established the position of Director of Finance and by ordinance will annually review and renew the Director of Finance's authority to invest and reinvest all the funds in the County Treasury.

II. Policy Statement

This Investment Policy (Policy) establishes cash management and investment guidelines for the Director of Finance, who is responsible for the stewardship of the Sacramento County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be judged by the standards of the Policy and its investment objectives. Activities that violate its spirit and intent will be considered contrary to the Policy.

III. Standard of Care

The Director of Finance is the Trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the prudent investor standard. The Director of Finance, employees involved in the investment process, and members of the Sacramento County Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activities that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California state law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Director of Finance shall act with care, skill, prudence, and diligence to meet the aims of the investment objectives listed in Section IV, Investment Objectives.

IV. Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

A. Safety of Principal

The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.

B. Liquidity

As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the Director of Finance to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

C. Public Trust

In managing the Pooled Investment Fund, the Director of Finance and the authorized investment traders should avoid any transactions that might impair public confidence in Sacramento County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

D. Maximum Rate of Return

As the fourth objective, the Pooled Investment Fund should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein. For comparative purposes, the State of California Local Agency Investment Fund (LAIF) will be used as a performance benchmark. The Pooled Investment Fund quarterly performance benchmark target has been set at or above LAIF's yield. This benchmark was chosen because LAIF's portfolio structure is similar to the Pooled Investment Fund.

V. Pooled Investment Fund Investors

The Pooled Investment Fund investors are comprised of Sacramento County, school and community college districts, districts directed by the Board of Supervisors, and independent special districts whose treasurer is the Director of Finance. Any local agencies not included in this category are subject to California Government Code section 53684 and are referred to as outside investors.

VI. Implementation

In order to provide direction to those responsible for management of the Pooled Investment Fund, the Director of Finance has established this Policy and will provide it to the Oversight Committee and render it to legislative bodies of local agencies that participate in the Pooled Investment Fund. In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy annually.

This Policy provides a detailed description of investment parameters used to implement the investment process and includes the following: investable funds; authorized instruments; prohibited investments; credit requirements; maximum maturities and concentrations; repurchase agreements; Community Reinvestment Act Program; criteria

and qualifications of broker/dealers and direct issuers; investment guidelines, management style and strategy; Approved Lists; and calculation of yield and costs.

VII. Internal Controls

The Director of Finance shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. To assist in implementation and internal controls, the Director of Finance has established an Investment Group and a Review Group.

The Investment Group, which is comprised of the Director of Finance and his/her designees, is responsible for maintenance of the investment guidelines and Approved Lists. These guidelines and lists can be altered daily, if needed, to adjust to the ever-changing financial markets. The guidelines can be more conservative or match the policy language. In no case can the guidelines override the Policy.

The Review Group, which is comprised of the Director of Finance and his/her designees, is responsible for the monthly review and appraisal of all the investments purchased by the Director of Finance and staff. This review includes bond proceeds, which are invested separately from the Pooled Investment Fund and are not governed by this Policy.

The Director of Finance shall establish a process for daily, monthly, quarterly, and annual review and monitoring of the Pooled Investment Fund activity. The following articles, in order of supremacy, govern the Pooled Investment Fund:

1. California Government Code
2. Annual Investment Policy
3. Current Investment Guidelines
4. Approved Lists (see page 9, Section IX.K)

The Director of Finance shall review the daily investment activity and corresponding bank balances.

Monthly, the Review Group shall review all investment activity and its compliance to the corresponding governing articles and investment objectives.

Quarterly, the Director of Finance will provide the Oversight Committee with a copy of the Pooled Investment Fund activity and its compliance to the annual Policy and California Government Code.

Annually, the Oversight Committee shall cause an annual audit of the activities within the Pooled Investment Fund to be conducted to determine compliance to the Policy and California Government Code. This audit will include issues relating to the structure of the investment portfolio and risk.

All securities purchased, with the exception of bank deposits, money market mutual funds, and LAIF, shall be delivered to the independent third-party custodian selected by

the Director of Finance. This includes all collateral for repurchase agreements. All trades, where applicable, will be executed by delivery versus payment by the designated third-party custodian.

VIII. Sacramento County Treasury Oversight Committee

In accordance with California Government Code section 27130 et seq., the Board of Supervisors, in consultation with the Director of Finance, has created the Sacramento County Treasury Oversight Committee (Oversight Committee). Annually, the Director of Finance shall prepare an Investment Policy that will be forwarded to and monitored by the Oversight Committee and rendered to Boards of all local agency participants. The Board of Supervisors shall review and approve the Policy during public session. Quarterly, the Director of Finance shall provide the Oversight Committee a report of all investment activities of the Pooled Investment Fund to ensure compliance to the Policy. Annually, the Oversight Committee shall cause an audit to be conducted on the Pooled Investment Fund. The meetings of the Oversight Committee shall be open to the public and subject to the Ralph M. Brown Act.

A member of the Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the Oversight Committee. A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the Sacramento County Board of Supervisors or governing board of any local agency that has deposited funds in the county treasury while a member of the Oversight Committee. Finally, a member may not secure employment with, or be employed by bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the Oversight Committee or for one year after leaving the committee.

The Oversight Committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the Department of Finance treasury and investment operations.

IX. Investment Parameters

A. Investable Funds

Total Investable Funds (TIF) for purposes of this Policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Included in TIF are funds of outside investors, if applicable, for which the Director of Finance provides investment services. Excluded from TIF are all funds held in separate portfolios.

The Cash Flow Horizon is the period in which the Pooled Investment Fund cash flow can be reasonably forecasted. This Policy establishes the Cash Flow Horizon to be one (1) year.

Once the Director of Finance has deemed that the cash flow forecast can be met, the Director of Finance may invest funds with maturities beyond one year. These securities will be referred to as the Core Portfolio.

B. Authorized Investments

Authorized investments shall match the general categories established by the California Government Code sections 53601 et seq. and 53635 et seq. Authorized investments shall include, in accordance with California Government Code section 16429.1, investments into LAIF. Authorization for specific instruments within these general categories, as well as narrower portfolio concentration and maturity limits, will be established and maintained by the Investment Group as part of the Investment Guidelines. As the California Government Code is amended, this Policy shall likewise become amended.

C. Prohibited Investments

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity except for securities issued by, or backed by, the United States government during a period of negative market interest rates. Prohibited investments shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

All legal investments issued by a tobacco-related company are prohibited. A tobacco-related company is defined as an entity that makes smoking products from tobacco used in cigarettes, cigars, or snuff or for smoking in pipes. The tobacco-related issuers restricted from any investment are any component companies in the Dow Jones U.S. Tobacco Index or the NYSE Arca Tobacco Index. Annually the Director of Finance and/or his designee will update the list of tobacco-related companies.

D. Credit Requirements

Except for municipal obligations and Community Reinvestment Act (CRA) bank deposits and certificates of deposit, the issuer's short-term credit ratings shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch, and the issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. There are no credit requirements for Registered State Warrants. All other municipal obligations shall be at or above a short-term rating of SP-1 by Standard & Poor's, MIG1 by Moody's, and, if available, F1 by Fitch. In addition, domestic banks are limited to those with a Fitch Viability rating of a or better, without regard to modifiers. The Investment Group is granted the authority to specify approved California banks with Fitch Viability ratings of bbb+ but they must have a Support rating of 1 where appropriate. Foreign banks with domestic licensed offices must have a Sovereign rating of AAA from Standard and Poor's,

Moody's, or Fitch and a Fitch Viability rating of a or better, without regard to modifiers; however, a foreign bank may have a rating of bbb+ but they must have a Support rating of 1. Domestic savings banks must be rated a or better, without regard to modifiers, or may have a rating of bbb+ but they must a Support rating of 1.

Community Reinvestment Act Program Credit Requirements

Maximum Amount	Minimum Requirements						
Up to the FDIC- or NCUSIF-insured limit for the term of the deposit	<u>Banks</u> — FDIC Insurance Coverage						
	<u>Credit Unions</u> — NCUSIF Insurance Coverage <i>Credit unions are limited to a maximum deposit of the NCUSIF-insured limit since they are not rated by nationally recognized rating agencies and are not required to provide collateral on public deposits.</i>						
Over the FDIC- or NCUSIF-insured limit	<p>(Any 2 of 3 ratings)</p> <table> <tr> <td>S&P: A-2</td><td></td></tr> <tr> <td>Moody's: P-2</td><td></td></tr> <tr> <td>Fitch: F-2</td><td></td></tr> </table> <p>OR</p> <p>Through a private sector entity that assists in the placement of deposits to achieve FDIC insurance coverage of the full deposit and accrued interest.</p> <p>Collateral is required</p>	S&P: A-2		Moody's: P-2		Fitch: F-2	
S&P: A-2							
Moody's: P-2							
Fitch: F-2							

Eligible banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. In addition, deposits greater than the federally-insured amount must be collateralized. Banks must place securities worth between 110% and 150% of the value of the deposit with the Federal Reserve Bank of San Francisco, the Home Loan Bank of San Francisco, or a trust bank.

Since credit unions do not have Community Reinvestment Act performance ratings, they must demonstrate their commitment to meeting the community reinvestment lending and charitable activities, which are also required of banks.

All commercial paper and medium-term note issues must be issued by corporations operating within the United States and having total assets in excess of one billion dollars (\$1,000,000,000).

The Investment Group may raise these credit standards as part of the Investment Guidelines and Approved Lists. Appendix A provides a Comparison and Interpretation of Credit Ratings by Standard & Poor's, Moody's, and Fitch.

E. Maximum Maturities

Due to the nature of the invested funds, no investment with limited market liquidity should be used. Appropriate amounts of highly-liquid investments, such as Treasury and Agency securities, should be maintained to accommodate unforeseen withdrawals.

The maximum maturity, determined as the term from the date of ownership to the date of maturity, for each investment shall be established as follows:

U.S. Treasury and Agency Obligations	5 years
Washington Supranational Obligations ¹	5 years
Municipal Notes.....	5 years
Registered State Warrants.....	5 years
Bankers Acceptances	180 days
Commercial Paper	270 days
Negotiable Certificates of Deposit.....	180 days
CRA Bank Deposit/Certificates of Deposit	1 year
Repurchase Agreements	1 year
Reverse Repurchase Agreements	92 days
Medium-Term Corporate Notes.....	180 days
Collateralized Mortgage Obligations	180 days

The Investment Group may reduce these maturity limits to a shorter term as part of the Investment Guidelines and the Approved Lists.

The ultimate maximum maturity of any investment shall be five (5) years. The dollar-weighted average maturity of all securities shall be equal to or less than three (3) years.

¹ The International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank.

F. Maximum Concentrations

No more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. The maximum allowable percentage for each type of security is set forth as follows:

U.S. Treasury and Agency Obligations.....	100%
Municipal Notes	80%
Registered State Warrants	80%
Bankers Acceptances.....	40%
Commercial Paper.....	40%
Washington Supranational Obligations	30%
Negotiable Certificates of Deposit and CRA Deposit/Certificates of Deposit	30%
Repurchase Agreements.....	30%
Reverse Repurchase Agreements.....	20%
Medium-Term Corporate Notes	30%
Money Market Mutual Funds	20%
Collateralized Mortgage Obligations.....	20%
Local Agency Investment Fund (LAIF)	(per State limit)

The Investment Group may reduce these concentrations as part of the Investment Guidelines and the Approved Lists.

No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

Where a percentage limitation is established above, for the purpose of determining investment compliance, that maximum percentage will be applied on the date of purchase.

G. Repurchase Agreements

Under California Government Code section 53601, paragraph (j) and section 53635, the Director of Finance may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a Repurchase Agreement shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be "matched to maturity" and meet all other requirements in the code.

All repurchase agreements must have an executed Sacramento County Master Repurchase Agreement on file with both the Director of Finance and the Broker/Dealer. Repurchase Agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments on the

Approved Lists of the County that meet the qualifications of the Policy, with a market value of 102%. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. Use of mortgage-backed securities for collateral is not permitted. Strictly for purposes of investing the daily excess bank balance, the collateral provided by the Sacramento County's depository bank can be Treasuries or Agencies valued at 110%, or mortgage-backed securities valued at 150%.

H. Community Reinvestment Act Program

The Director of Finance has allocated within the Pooled Investment Fund, a maximum of \$90 million for the Community Reinvestment Act Program to encourage community investment by financial institutions, which includes community banks and credit unions, and to acknowledge and reward local financial institutions that support the community's financial needs. The Director of Finance may increase this amount, as appropriate, while staying within the investment policy objectives and maximum maturity and concentration limits. The eligible banks and savings banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. The minimum credit requirements are located on page 5 of Section IX.D.

I. Criteria and Qualifications of Brokers/Dealers and Direct Issuers

All transactions initiated on behalf of the Pooled Investment Fund and Sacramento County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or direct issuers that directly issue their own securities that have been placed on the Approved List of brokers/dealers and direct issuers. Further, these firms must have an investment grade rating from at least two national rating services, if available.

Brokers/Dealers and direct issuers that have exceeded the political contribution limits, as contained in Rule G-37 of the Municipal Securities Rulemaking Board, within the preceding four-year period to the Director of Finance, any member of the Board of Supervisors, or any candidate for the Board of Supervisors, are prohibited from the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer authorized to do business with Sacramento County shall, at least annually, supply the Director of Finance with audited financial statements.

J. Investment Guidelines, Management Style and Strategy

The Investment Group, named by the Director of Finance, shall issue and maintain Investment Guidelines specifying authorized investments, credit requirements, permitted transactions, and issue maturity and concentration limits consistent with this Policy.

The Investment Group shall also issue a statement describing the investment management style and current strategy for the entire investment program. The management style and strategy can be changed to accommodate shifts in the financial markets, but at all times they must be consistent with this Policy and its objectives.

K. Approved Lists

The Investment Group, named by the Director of Finance, shall issue and maintain various Approved Lists. These lists are:

1. Approved Domestic Banks for all legal investments.
2. Approved Foreign Banks for all legal investments.
3. Approved Commercial Paper and Medium Term Note Issuers.
4. Approved Money Market Mutual Funds.
5. Approved Firms for Purchase or Sale of Securities (Brokers/Dealers and Direct Issuers).
6. Approved Banks / Credit Unions for the Community Reinvestment Act Program.

L. Calculation of Yield and Costs

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Department of Finance will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

X. Reviewing, Monitoring and Reporting of the Portfolio

The Review Group will prepare and present to the Director of Finance at least monthly a comprehensive review and evaluation of the transactions, positions, performance of the

Pooled Investment Fund and compliance to the California Government Code, Policy, and Investment Guidelines.

Quarterly, the Director of Finance will provide to the Oversight Committee and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. Pursuant to California Government Code section 53646, the report will list the type of investments, name of issuer, maturity date, par and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value, and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.

Each quarter, the Director of Finance shall provide to the Board of Supervisors and interested parties a comprehensive report on the Pooled Investment Fund.

Annually, the Director of Finance shall provide to the Oversight Committee the Investment Policy. Additionally, the Director of Finance will render a copy of the Investment Policy to the legislative body of the local agencies that participate in the Pooled Investment Fund.

XI. Withdrawal Requests for Pooled Fund Investors

The Director of Finance will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Director of Finance at a one dollar net asset value. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Director of Finance. In accordance with California Government Code Sections 27133(h) and 27136, such requests for withdrawals must first be made in writing to the Director of Finance. When evaluating a request to withdraw funds, the Director of Finance will take into account the effect of a withdrawal on the stability and predictability of the Pooled Investment Fund and the interests of other depositors. Any withdrawal for such purposes will be at the market value of the Pooled Investment Fund on the date of the withdrawal.

XII. Limits on Honoraria, Gifts, and Gratuities

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and broker/dealers, and conduct day-to-day investment trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities from any single source in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. This limitation was \$500 for the period January 1, 2019, to December 31, 2020, and the State Fair Political Practices Commission will update this limit for inflation by January 2021. Any violation must be reported to the State Fair Political Practices Commission.

XIII. Terms and Conditions for Outside Investors

Outside investors may invest in the Pooled Investment Fund through California Government Code Section 53684. Their deposits are subject to the consent of the Director of Finance. The legislative body of the local agency must approve the Sacramento County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid based upon the market value of the Pooled Investment Fund. If the Director of Finance considers it appropriate, the deposits may be returned at any time to the local agency.

Appendix A

Comparison and Interpretation of Credit Ratings

Long Term Debt & Individual Bank Ratings				
Rating Interpretation	Moody's	S&P	Fitch	Fitch Viability Rating
<i>Best-quality grade</i>	Aaa	AAA	AAA	aaa
<i>High-quality grade</i>	Aa1	AA+	AA+	aa+
	Aa2	AA	AA	aa
	Aa3	AA-	AA-	aa-
<i>Upper Medium Grade</i>	A1	A+	A+	a+
	A2	A	A	a
	A3	A-	A-	a-
<i>Medium Grade</i>	Baa1	BBB+	BBB+	bbb+
	Baa2	BBB	BBB	bbb
	Baa3	BBB-	BBB-	bbb-
<i>Speculative Grade</i>	Ba1	BB+	BB+	bb+
	Ba2	BB	BB	bb
	Ba3	BB-	BB-	bb-
<i>Low Grade</i>	B1	B+	B+	b+
	B2	B	B	b
	B3	B-	B-	b-
<i>Poor Grade to Default</i>	Caa	CCC+	CCC	ccc
<i>In Poor Standing</i>	-	CCC	-	
	-	CCC-	-	
<i>Highly Speculative Default</i>	Ca	CC	CC	cc
	C	-	-	c
<i>Default</i>	-	-	DDD	f
	-	-	DD	f
	-	D	D	f

Short Term / Municipal Note Investment Grade Ratings			
Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	MIG-1	SP-1+/SP-1	F1+/F1
<i>Strong Capacity</i>	MIG-2	SP-2	F2
<i>Acceptable Capacity</i>	MIG-3	SP-3	F3

Appendix A

Short Term / Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	P-1	A-1+/A-1	F1+/F1
<i>Strong Capacity</i>	P-2	A-2	F2
<i>Acceptable Capacity</i>	P-3	A-3	F3

Fitch Support Ratings

Rating	Interpretation
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

Appendix A

Fitch Sovereign Risk Ratings

<i>Rating</i>	<i>Interpretation</i>
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for timely payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative. 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	High default risk. Default is a real possibility.
CC	Very high levels of credit risk. Default of some kind appears probable.
C	Exceptionally high levels of credit risk. Default appears imminent or inevitable.
D	<p>Default. Indicates a default. Default generally is defined as one of the following:</p> <ul style="list-style-type: none"> • Failure to make payment of principal and/or interest under the contractual terms of the rated obligation; • The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or • The coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

DTC BOOK-ENTRY ONLY SYSTEM

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

Procedures and Record-Keeping

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the

Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds 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.

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

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

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

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

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

Discontinuance of DTC Services

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) DTC shall no longer so act and gives notice to the District of such determination, then the District will discontinue the book-entry system with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond, per maturity, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names owners of the Bonds transferring or exchanging Bonds shall designate, and the District will prepare and deliver Bonds to the owners thereof for such purpose.

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

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolutions; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any

consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Resolutions. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.