

be subject, directly or indirectly, to federal and/or state income taxation, or otherwise prevent Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal and/or state tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations that present similar tax issues, will not affect the market price or liquidity of the Bonds.

The rights of the Owners of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

### CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District (the "Annual Report") not later than April 15 following the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2017-18 fiscal year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and event notices 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 in the event notices is described in Appendix E – "Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2 12(b)(5) (the "Rule").

[TO COME]

As of the date of this Official Statement, all required filings in the past five years have been made in connection with prior undertakings under the Rule. The District believes it has established processes to ensure it will make required filings on a timely basis in the future. The District has engaged KNN Public Finance, LLC to assist it in carrying out its continuing disclosure obligations.

### LITIGATION

#### No Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue the Bonds.

### RATINGS

S&P's Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("Standard & Poor's") and Kroll Bond Rating Agency, Inc. ("KBRA") are expected to assign their municipal bond insured ratings of "\_\_\_" and "\_\_\_," respectively, to the Bonds based upon the issuance by [INSURER] of the Policy at the time of delivery of the Bonds. Standard & Poor's has assigned its underlying rating of "\_\_\_" to the Bonds. Such ratings reflect only the views of Standard & Poor's and KBRA, and an explanation of the significance of such ratings may be obtained from Standard & Poor's and KBRA,

respectively. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance the credit ratings given to the Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

### **UNDERWRITING**

Piper Jaffray & Co. (the "Underwriter") has agreed, pursuant to a purchase contract by and between the District, the County, and the Underwriter, to purchase all of the Bonds at a price of \$\_\_\_\_\_, which equals the par amount of the Bonds (\$[PAR AMOUNT]), plus net original issue premium (\$\_\_\_\_\_), and less underwriter's discount (\$\_\_\_\_\_).

The purchase contract for the Bonds provides that the Underwriter will purchase all of the Bonds (if any are purchased) and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Underwriter may offer and sell Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed by the Underwriter.

The Underwriter has entered into a distribution agreement (the "Schwab Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Schwab Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

### **INDEPENDENT AUDITORS**

The financial statements of the District as of and for the year ending June 30, 2017, have been audited by Christy White Associates, San Diego, California (the "Auditor"). The audited financial statements of the District as of and for the year ended June 30, 2017, are set forth in Appendix B – "Audited Financial Statements of the District for Fiscal Year Ended June 30, 2017" 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 performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter. Complete copies of all past and current financial statements may be obtained from the District.

### **ADDITIONAL INFORMATION**

The discussions herein about the Paying Agent Agreement and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the Underwriter and following delivery of the Bonds will be on file at the offices of the Paying Agent in Dallas, Texas.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District.

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

**AUTHORIZATION**

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

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT**

By: \_\_\_\_\_  
Gay Starkey, Ed.D., Superintendent

**APPENDIX A  
THE DISTRICT  
GENERAL AND FINANCIAL INFORMATION**

*The information in this section concerning the operations of the District and its finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied by the Counties on all taxable property in the District in an amount sufficient for the timely payment of principal of and interest on the Bonds.*

**GENERAL INFORMATION**

**Introduction**

The Marysville Joint Unified School District (the "District"), a political subdivision of the State of California, was organized in 1966 under the authority of a majority vote of the qualified electors residing within thirteen area school districts who elected to unify said school districts into a unified school district. The District is a unified district, providing elementary and secondary public education to approximately 10,010 students, residing in and around the City of Marysville and within certain portions of the unincorporated area of the County of Yuba, at fourteen elementary schools, three intermediate schools, two comprehensive high schools, two alternative high schools, one independent study program serving grades kindergarten through twelve, a charter school for the arts for grades seven through twelve, and preschool and day care centers. The boundaries of the District cover an area of approximately 1,700 square miles of central and northern Yuba County and a small portion of Butte County.

Annual average daily attendance in the District was 9,319 for fiscal year 2016-17 and 9,311 for fiscal year 2017-18, and is projected to be 9,491 for fiscal year 2018-19.

**Governing Board**

The District's Board of Trustees ("Board") governs all activities related to public education within the jurisdiction of the District. The District Board has the decision-making authority, the power to designate management, the responsibility to significantly influence operations and is accountable for all fiscal matters relating to the District.

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

Current members of the Board, their offices, and the expiration of their terms of office are shown below.

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT**  
**Governing Board**

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Randy L. Rasmussen	President	2018
Frank J. Crawford	Vice President	2018
Susan E. Scott	Clerk	2020
Jim C. Flurry	Trustee Representative	2020
Paul F. Allison	Member	2020
Jeff. D. Boom	Member	2018
Randy L. Davis	Member	2018

**Superintendent and Administrative Personnel**

The Superintendent of the District is appointed by and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other District administrators. Gay Starkey, Ed.D. is the District Superintendent. Ramiro Carreón is the Assistant Superintendent of Personnel Services and Michael Hodson is the Assistant Superintendent of Business Services.

**Enrollment and Average Daily Attendance**

As described herein, prior to fiscal year 2013-14, State funding of public school districts was based on a formula which considered a revenue limit per unit of average daily attendance ("ADA"). ADA is a measurement of the number of pupils attending classes of the District. The Local Control Funding Formula ("LCFF"), described herein, was implemented in fiscal year 2013-14. Under the LCFF, public school districts in California receive based funding based on ADA, and may also be entitled to receive additional types of funding. See "Education Funding and Revenue Sources" herein.

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 following table shows the District's enrollment and ADA for each year from 2010-11 through 2017-18 and projected numbers for 2018-19.

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT**  
**Enrollment, Average Daily Attendance**  
**Fiscal Years 2010-11 to 2018-19**

Fiscal Year	Enrollment	Average Daily Attendance
2010-11	9,785	9,193
2011-12	9,589	9,135
2012-13	9,582	9,089
2013-14	9,493	9,128
2014-15	9,493	9,259
2015-16	9,638	9,209
2016-17	9,804	9,319
2017-18	9,907	9,311
2018-19 <sup>(1)</sup>	10,010	9,491

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

Source: Marysville Joint Unified School District

The following table shows a breakdown of the District's fiscal years 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 (projected) ADA by grade span, total enrollment, and the percentage of students classified as English learners, low-income, of foster youth ("EL/LI").

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT**  
**ADA by Grade Span, Total Enrollment, and EL/LI Enrollment**  
**Fiscal Years 2014-15 to 2017-18 and 2018-19 (projected)**

Average Daily Attendance <sup>(1)</sup>					Total District Enrollment	% EL/LI <sup>(2)</sup>
	(By Grade Span)					
Fiscal Year	K-3	4-6	7-8	Total District		
2014-15	3,069	2,154	1,256	8,982	9,493	21.8%
2015-16	3,131	2,219	1,322	9,149	9,637	22.9%
2016-17	3,174	2,288	1,377	9,319	9,846	23.0%
2017-18	3,218	2,289	1,406	9,311	9,906	22.3%
2018-19 <sup>(3)</sup>	3,239	2,292	1,469	9,491	9,969	21.8%

<sup>(1)</sup> ADA is determined as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.

<sup>(2)</sup> The percentage calculated for Fiscal Year 2014-15 is based on the average of 2013-14 and 2014-15 enrollment. Thereafter, the percentage will be calculated on the basis of the average of the current fiscal year and the prior two fiscal years.

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

Source: Marysville Joint Unified School District

## Charter Schools

There are three charter schools operating within the District—the Marysville Charter Academy for the Arts, Paragon Collegiate Academy Charter School and the Yuba Environmental Science Charter Academy. Marysville Charter Academy for the Arts serves grades seven through twelfth, with fiscal year 2017-18 enrollment of approximately 380 students. Marysville Charter Academy for the Arts is fiscally

dependent on the District, and its financial activities are presented in the District's financial statements under the Charter School Fund (see "Appendix B" herein). Paragon Collegiate Academy Charter School serves grades kindergarten through eighth, with fiscal year 2018-19 enrollment of approximately 180 students. Paragon Collegiate Academy Charter School is fiscally independent of the District—its financial activities are *not* presented in the District's financial statements. Yuba Environmental Science Charter Academy serves grades kindergarten through eighth, with fiscal year 2018-19 enrollment of approximately 100 students. Yuba Environmental Science Charter Academy is also fiscally independent of the District—its financial activities are *not* presented in the District's financial statements.

To the extent charter schools draw students from school district schools and reduce school district enrollment, charter schools can adversely affect school district revenues. 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 comparable 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.

### **Pupil-Teacher Ratios**

Set forth below are the pupil-to-teacher ratios of the District in fiscal year 2018-19.

#### **MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT Pupil-to-Teacher Ratios**

<u>Level</u>	<u>Pupil-Teacher Ratio</u>
Kindergarten – Third Grade	24:1
Fourth – Eighth Grade	34:1
Ninth – Twelfth Grade	36:1

*Source: Marysville Joint Unified School District*

### **Employee Relations**

State law provides that employees of public school districts of the State are to be divided into appropriate bargaining units which then are to be represented by an exclusive bargaining agent.

The District has four recognized bargaining agents for its employees. The Marysville Unified Teachers' Association represents all non-management certificated staff, and the California School Employees Association #326 and #648 and the Operating Engineers Local #3 represent non-management classified employees.

Set forth in the following table are the District's bargaining units, number of full-time equivalent ("FTEs") budgeted for fiscal year 2018-19, and contract expiration date.

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT**  
**Bargaining Units, Number of Employees and Contract Status**

<u>Bargaining Units</u>	<u>Full-Time Equivalents</u>	<u>Contract Expiration Date</u>
Marysville Unified Teachers'	498.4	June 30, 2018
California School Employees Association #328 and 648	155.3	June 30, 2018
Operating Engineers Local #3	309.4	June 30, 2018

Source: Marysville Joint Unified School District

The District has budgeted for fiscal year 2018-19 an additional 89.6 management and confidential FTEs not represented by a bargaining unit.

**District Retirement Programs**

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

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers' Retirement System ("STRS") and classified employees are members of the Public Employees' Retirement System ("PERS"). Both STRS and PERS are operated on a statewide basis.

**STRS.** All full-time certificated employees participate in STRS, a cost-sharing, multiple employer contributory public employee retirement system. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. STRS is funded through a combination of investment earnings and statutorily set contributions from employee plan members, the District and the State.

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the statutory contributions were significantly less than the actuarially required amounts. As a result, and due in part to investment losses, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$76.2 billion as of June 30, 2015 (the date of the last actuarial valuation).

In June 2014, the Governor signed into law Assembly Bill 1469 ("AB 1469"), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan by requiring increased contributions phased in over the next several years. In particular, employee contributions increased to 8.15% of salary in 2014-15 and will increase to 10.25% in 2016-17 and thereafter. District contributions increased to 8.88% of payroll in 2014-15 and will increase incrementally to 19.1% by 2020-21. Thereafter, District contributions will be determined by the STRS governing board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046. The State's contribution rate increased from 3.454% in 2014-15 and will increase to 6.328% in 2016-17 and thereafter.

The District's employer contribution rates for fiscal years 2016-17 and 2017-18 were 12.58% and 14.43% respectively, and is projected to be 16.28% in fiscal year 2018-19.



**PERS.** All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of the School Employer Pool, a “cost-sharing” pool for school employers within PERS. Active plan members are required to contribute 7.0% (or, for members added after 2012, at least half the “normal cost” of benefits, which is currently 7.0%) and the District is required to contribute an actuarially determined rate. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each participant.

Similar to STRS, PERS has experienced an unfunded liability in recent years. The PERS unfunded liability was approximately \$21.75 billion as of June 30, 2016 (the date of the last actuarial valuation). Among other things, to address this issue, the PERS Board of Administration (the “PERS Board”), in April 2013, approved changes to the PERS amortization and smoothing policy in order to reduce volatility in employer contribution rates. Additionally, in April 2014, the PERS Board established new contribution rates, reflecting changes in actuarial and demographic assumptions, to be implemented for school districts beginning this fiscal year 2016-17. The goal for the new rates is to eliminate the unfunded liability in approximately 30 years.

The District’s employer contribution rates for fiscal years 2016-17 and 2017-18 were 13.888% and 15.531%, respectively, and are projected to be 18.062% in fiscal years 2018-19.

**District Contributions.** The District’s retirement contributions for the fiscal year ended June 30, 2018, were as follows:

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT  
Retirement Contributions for Fiscal Year 2017-18**

	Actual Number of Employees Covered	Total Employer Contributions	District’s Fiscal Year 2015-16 Covered Payroll	Employer Contribution as a Percentage of Covered Payroll
STRS	613	\$6,452,604	\$44,725,866	14%
PERS	556	2,930,577	18,897,093	15%

Source: Marysville Joint Unified School District

For the 2018-19 Fiscal Year the District has budgeted \$10,554,136 for STRS (reflecting a contribution rate of 16.28% of annual payroll) and \$3,595,643 for PERS (reflecting a contribution rate of 18.062% of annual payroll).

The District can provide no assurances that the District’s required contributions to STRS and PERS will not increase in the future.

**California Public Employees’ Pension Reform Act of 2013.** The California Public Employees’ Pension Reform Act of 2013 (“PEPRA”) was signed in to law by the Governor on September 12, 2012. PEPRA’s impacts to the STRS and PERS program included (i) an increase in the retirement age for public employees depending on job function, (ii) a cap on the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) a requirement for public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), and (iv) a requirement for final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months. PEPRA’s provisions went into effect on January 1, 2013 with respect to new State, school, and city and

local agency employees hired on or after that date. Existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

The District is unable to predict the amount of future contributions it will have to make to PERS and STRS as a result of the implementation of PEPRA, as a result of negotiations with its employee bargaining units, and/or as a result of any legislative or administrative changes that may be adopted in the future regarding employer contributions to PERS and STRS. PERS' actuaries have estimated that recently adopted pension reform legislation may produce savings of between \$8.6 and \$10.8 million over the next 30 years for the schools plans. STRS' actuaries estimate savings of approximately \$22.7 million over that same period. The District cannot predict whether any of those projected savings will be realized by the District.

***STRS and PERS Financial Reports.*** Both STRS and PERS issue a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from both STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

#### **Other Post-Employment Benefits**

In addition to the pension benefits described above, the District provides postemployment health care benefits (known as "other post-employment benefits," or "OPEB"), in accordance with District employment contracts, to retirees meeting certain eligibility requirements described below. The District provides OPEB through its Retired Employees Healthcare plan, which provides medical and dental insurance benefits to eligible retirees, their spouses and if applicable, dependents. Employees who retire from the District on or after attaining age 55 with at least 15 years of service for certificated and management employees, and classified employees who retire from the District on or after attaining the age of 60 with at least 20 years of service, are eligible to receive OPEB. Currently, 53 retirees meet those eligibility requirements.

GASB Statement No. 74 and 75, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions requires public agency employers providing healthcare benefits to retirees to actuarially accrue retiree health benefits. The actuarial cost method mandated by GASB 75 is the "entry age actuarial cost method". Under this method, there are two components of actuarial cost – a "service cost" (SC) and the "Total OPEB Liability" (TOL).

The District completed an actuarial study assessing the District's OPEB liability as of June 30, 2017. The average service cost beginning June 30, 2017 is \$1,236,895. Accruing retiree health benefit costs using service costs levels out the cost of retiree health benefits over time and more fairly reflects the values of benefits "earned" each year by employees.

If actuarial assumptions are borne out by experience, the District will fully accrue retiree benefits by expensing an amount each year that equals the service cost. If no accruals had taken place in the past, there would be a shortfall of many years' accruals, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the Total OPEB Liability. The TOL is calculated as

Actuarial Present Value of projected Benefit Payments (APVPVP) minus the present value of future service costs. The District's TOL as of June 30, 2017 was \$17,488,679.

Preliminary OPEB Expense includes service cost, interest cost, change in TOL due to plan changes; all adjusted for deferred inflows and outflows. The OPEB Expense for year ending June 30, 2017 is \$1,790,190.

The District funds its OPEB liability on a "pay-as-you go" basis. In fiscal year 16-17, the District paid \$1,175,015 in OPEB.

For additional information related to the District's OPEB plan, see Note 10 of the audited financial statements attached as Appendix B hereto.

## **Insurance**

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District participates in the Northern California Schools Insurance Group ("NCSIG"). The NCSIG arranges for and provides property and liability insurance to member school districts. The District also participates in the Schools Insurance Group ("SIG"). SIG arranges for and provides workers' compensation insurance to member school districts. The District's risk management activities are recorded in the General Fund.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts did not exceed insurance coverage for the current year.

## **DISTRICT FINANCIAL INFORMATION**

*The information in this section concerning the operations of the District and its finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal or accreted value of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied by the Counties on all taxable property in the District in an amount sufficient for the timely payment of principal or accreted value of and interest on the Bonds. See "Security and Sources of Payment for the Bonds."*

## **Education Funding and Revenue Sources**

Funding for the District's operations is provided by a mix of (1) local property taxes; (2) State apportionments of funding under the Local Control Funding Formula (described herein); (3) federal government grants; and (4) miscellaneous other revenues. Decreases or deferrals in education funding by the State could significantly affect a school district's revenues and operations.

**Property Taxes.** Under current law, local agencies are not permitted to levy directly any property tax (except *ad valorem* taxes to pay debt service on voter-approved bonds and voter-approved non-*ad-valorem* taxes for limited purposes). Instead, general purpose *ad valorem* property taxes are automatically levied by each county at the maximum 1% property tax rate permitted by Proposition 13, and property tax revenue is distributed by the county among all the local government taxing agencies (including school districts) within the county according to a statutory formula. See "Security and Sources of Payment for the Bonds," herein.

**State Funding of Education. Revenue Limit.** Prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of ADA. In general, revenue limits were calculated for each school district by multiplying (1) the ADA for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations were adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. Funding of the District's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the District's revenue limit and its local property tax revenues.

**Local Control Funding Formula.** Beginning in Fiscal Year 2013-14, the bulk of apportionments of State funding to school districts for general purposes have been allocated pursuant to a new system referred to as the "Local Control Funding Formula" ("LCFF"). Under LCFF, revenue limits and most State-mandated categorical programs were eliminated. Instead, a locally-controlled system has been implemented whereby school districts receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. Now, apportionment to school districts are made on the basis of uniform, target base rates per unit of ADA for each of four grade spans, subject to several adjustments, as described below. The annual State general purpose apportionment received by a school district represents the difference between such district's total general purpose allocation and its share of the general purpose local property tax distributed to it by the county. A school district that has property tax revenues which exceed its entitlement under the LCFF is entitled to keep its local property tax revenues which exceed its LCFF funding entitlement.

The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The base grant funding by grade span for fiscal year 2016-17 is set forth in the table below. The base rates for grades K-3 and 9-12 are increased (see table below), to cover the costs of class size reduction in the early grades and to support college and career readiness programs in high schools. These target base rates are to be updated each year for cost-of-living adjustments ("COLAs").

<u>Grade Span</u>	<u>2017-18 Base Grant per ADA</u>	<u>2018-19 "Super COLA" (3.70%)</u>	<u>Grade Span Adjustments <sup>(1)</sup></u>	<u>2018-19 Base Grant/ Adjusted Base Grant per ADA</u>
K-3	\$7,193	\$266	\$776	\$8,235
4-6	7,301	270	N/A	7,571
7-8	7,518	278	N/A	7,796
9-12	8,712	322	235	9,269

(1) K-3 adjustment is 10.4%; 9-12 adjustment is 2.6%.

Source: California Department of Education – Funding Rates and Information, Fiscal Year 2018-19

- The LCFF provides supplemental funds to school districts based on the three-year rolling average of enrollment of students of limited English proficiency, students from low income families that are eligible for free or reduced priced meals, and foster youth. Students who are in more than one category are counted only once. Under the formula, each qualifying student generates an additional 20% of the student's adjusted grade-span base rate. School districts whose qualifying student populations exceed 55% of their total enrollment will receive additional "concentration"

funding equal to 50% of the applicable adjusted base rate multiplied by the percentage of such district's qualifying student enrollment above the 55% threshold.

- Funds for two existing categorical programs — the Targeted Instructional Improvement Block Grant and the Home-to-School Transportation program — are treated as add-ons to the LCFF. Districts that received funding from these programs in 2012–13 will continue to receive that same amount of funding in addition to what the LCFF provides each year.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

The LCFF was implemented for fiscal year 2013-14 and will be phased in over a span of eight fiscal years. School districts will receive annual funding increases based on the difference between their respective prior-year funding level and the target LCFF allocation following full implementation. In each year, every school district will see the same proportion of its gap closed.

The new legislation included a “hold harmless” provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its 2012-13 level, unadjusted for changes in ADA or cost of living adjustments. The LCFF includes an accountability component. Districts are required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. All school districts, county offices of education, and charter schools are required to develop and adopt local control and accountability plans, which identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate.

County superintendents review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction performs a corresponding role for county offices of education. In addition, the 2013-14 Budget created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

***Federal Revenues.*** The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, Every Students Succeeds, the Individuals with Disabilities Education Act, and specialized programs such as Drug Free Schools.

***Other State Revenues.*** The District receives State aid from the California State Lottery, which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instruction material.

For additional discussion of State aid to school districts, see “Education Funding and Revenue Sources – State Funding of Education” above.

***Other Local Revenues.*** In addition to local property taxes, the District receives additional local revenues from items such as interest earnings and other local sources.

## **Effect of State Budget on Revenues**

As discussed above, California public school districts are dependent on revenues from the State for a large portion of their operating budgets. The primary source of funding for school districts is LCFF funding, which is derived from a combination of State funds and local property taxes (see “Education Funding and Revenue Sources” above). State funds typically make up the majority of a school district’s LCFF funding. School districts also receive funding from the State for some specialized programs such as special education.

State funds for public education are impacted by several factors, including, but not limited to, Constitutional provisions governing school district revenues and expenditures (see “Constitutional and Statutory Provisions Affecting District Revenues and Appropriations”), the total revenue available in the State general fund (as a result of the strength of the State economy), and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the strength of the State economy (which, as stated above, can impact the amount of funding available from the State for educational purposes). See “State Funding of Education” below.

## **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. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board 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 assets 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 District’s 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 B – “Audited Financial Statements of the District for Fiscal Year Ended June 30, 2017” herein for a further discussion of applicable accounting policies.

## **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 ending June 30, 2017, have been included in the appendix to this Official Statement. See Appendix B – “Audited Financial Statements of the District for Fiscal Year Ended June 30, 2017” herein. Audited financial statements and other financial reports for prior fiscal years are on file with the District and available for public inspection during normal business hours. Copies of financial statements relating to any year are available to prospective investors and or their representatives upon request by contacting the District at Marysville Joint Unified School District, 1919 B Street, Marysville, CA 95901, telephone (530) 741-6000, or by contacting the District’s

municipal advisor, KNN Public Finance, LLC at (949) 346-4900. The District may impose a charge for copying, mailing and handling.

***General Fund.*** The District's 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 following table shows the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for Fiscal Years 2011-12 through 2017-18.

**MARYSVILLE JOINT ELEMENTARY SCHOOL DISTRICT**  
**Summary of General Fund Revenues, Expenditures and Changes in Fund Balances for**  
**Fiscal Years 2011-12 through 2016-17 (Audited) and 2017-18 (Unaudited)**

	Audited 2011-12	Audited 2012-13	Audited 2013-14	Audited 2014-15	Audited 2015-16	Audited 2016-17	Unaudited 2017-18
BEGINNING BALANCE	\$11,006,438	\$11,292,237	\$11,030,704	\$13,210,849	\$14,524,724	\$23,572,176	\$28,970,648
REVENUES							
Revenue					83,079,182	89,662,027	91,271,439
Limit/LCFF	48,412,487	46,291,611	62,084,576	69,782,521			
Federal Revenue	11,041,423	9,555,109	6,598,714	6,243,754	6,989,484	6,479,036	7,310,382
Other State	15,610,854	15,270,551	6,145,982	5,698,057	12,485,174	10,026,371	9,158,383
Revenue							
Other Local	5,577,103	4,351,365	4,947,979	4,507,017	5,400,550	5,504,040	5,610,347
Revenue							
Total	\$80,641,867	\$75,468,636	\$79,777,251	\$86,231,349	107,954,390	111,671,474	113,350,551
Revenues							
EXPENDITURES							
Certificated	\$35,712,212	\$34,484,544	\$34,269,693	\$35,580,325	38,951,493	42,031,208	44,909,872
Salaries							
Classified Salaries	12,605,616	12,856,411	13,508,026	14,702,060	16,026,616	16,778,335	18,330,690
Employee	15,939,866	15,433,961	15,340,113	16,913,145	21,593,512	22,301,233	25,405,474
Benefits							
Books and	4,750,989	4,797,146	4,291,952	6,058,625	6,368,491	6,051,029	6,422,251
Supplies							
Services and	8,226,455	7,722,262	7,798,621	7,835,082	8,867,670	8,841,118	10,320,585
Other Operating							
Exp.							
Capital Outlay	269,364	166,570	372,433	1,025,760	3,250,014	6,018,010	2,403,315
Other Outgo	2,276,688	1,199,604	2,071,804	1,890,461	3,003,087	3,351,410	3,494,798
Debt Service	955,917	193,691	--	--	--	-	-
Total	\$80,737,107	\$76,854,189	\$77,652,643	\$84,005,458	\$98,060,883	\$105,372,343	\$111,286,985
Expenditures							
TOTAL EXPENDITURES	\$80,737,107	\$76,854,189	\$77,652,643	\$84,005,458	\$98,060,883	\$105,372,343	\$111,286,985
OTHER FINANCING SOURCES	\$381,039	\$1,124,020	\$55,537	(\$912,016)	(846,055)	(900,658,52)	(25,371)
NET INCREASE (DECREASE)	\$285,799	(\$261,533)	\$2,180,145	\$1,313,875	\$9,047,452	\$5,398,472	\$2,088,937
ENDING BALANCE	\$11,292,237	\$11,030,704	\$13,210,849	\$14,524,724	\$23,572,176	\$28,970,648	\$31,059,585

Source: District's Audited Financial Statements for Fiscal Years 2011-12 through 2016-17 and Unaudited Actuals for 2017-18.



## District Budget and Financial Reporting Process

***Budget and Interim Financial Reporting.*** The District is required by provisions of the State 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 school districts.

The fiscal year for all State school districts is July 1 to June 30. The State budget is extremely important input in State school district budget preparation since many school districts depend on State funding for a substantial portion of their revenue. There is very close timing between final approval of the State budget (legally required by June 15), 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.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first.

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 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 August 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 September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For all school districts whose budgets have been disapproved, the school district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final school district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to State 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 AB 1200 (adopted in 1991), each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent

fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

***District's Budget Approval/Disapproval and Certification History.*** The District has not received any qualified or negative certifications of its financial reports in the past five years, nor have any of its budgets been disapproved. The District's most recent interim report, the Second Interim for fiscal year 2017-18, received a positive certification.

**District's 2017-18 Financial Information and 2018-19 Adopted Budget.** The following table shows the District's General Fund adopted budgets for fiscal years 2017-18 and 2018-19, as well as the Estimated Actuals for fiscal year 2017-18.

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT  
Revenues, Expenditures and Changes in Fund Balances for  
Fiscal Year 2017-18 (Adopted Budget and Estimated Actuals) and  
Fiscal Year 2018-19 (Adopted Budget)**

	Adopted Budget 2017-18	Estimated Actuals 2017-18	Adopted Budget 2018-19
<b>REVENUES</b>			
Local Control Funding Formula	\$93,467,092	\$92,053,234	\$99,849,118
Federal Revenue	5,975,166	8,595,776	6,980,959
Other State Revenue	7,618,480	9,876,638	10,358,393
Other Local Revenue	3,917,889	4,751,750	3,917,146
Total Revenues	\$110,978,627	\$96,252,090	\$121,105,606
<b>EXPENDITURES</b>			
Certificated Salaries	43,547,957	44,266,073	46,508,937
Classified Salaries	16,320,542	18,628,678	17,813,729
Employee Benefits	24,670,192	25,724,583	26,876,247
Books and Supplies	6,953,046	10,685,267	7,494,855
Contract Services & Operating Exp.	10,310,608	12,707,734	10,970,022
Capital Outlay	770,539	2,976,774	2,344,372
Other Outgo (excluding indirect costs)	4,067,298	4,569,012	5,157,412
Other Outgo – transfers of indirect costs	(1,094,572)	(1,099,246)	(1,151,833)
Total Expenditures	\$105,545,610	\$118,458,885	\$116,013,691
Excess (Deficiency) of Revenues over (under) Expenditures	\$5,433,017	\$(3,181,477)	\$5,091,915
<b>Other Financing Sources (Uses):</b>			
Contributions	\$0	\$0	\$0
Transfers In	0	0	0
Other sources	0	0	0
Transfers Out	(820,000)	(4,480)	(1,000,000)
Net financing Sources (Uses)	(820,000)	(4,480)	(1,000,000)
<b>Net Change in Fund Balances</b>			
Fund Balances - Beginning	\$28,970,648	\$28,970,648	\$25,833,051
Net Change	4,613,017		
Fund Balances – Ending	\$33,583,665	\$25,784,691	\$29,924,966

Source: District's 2018-19 Adopted Budget.

**District Reserves**

The District's ending fund balance is the accumulation of surpluses from prior years. This fund balance is used to meet the State's minimum required reserve of 3% of expenditures, plus any other allocation or reserve which might be approved as an expenditure by the District in the future. The District maintains an unrestricted reserve that meets the State's minimum requirements.

Senate Bill 858 was adopted by the State in June 2014 to amend the Education Code to provide that beginning in fiscal year 2015-16, if a school district's proposed budget includes a local reserve above the State's minimum recommended level, the governing board must approve the information for review at the public hearing on its proposed budget. Additionally, State voters approved a constitutional amendment at the general election on November 4, 2014, that could limit the amount of reserves maintained at the

district level. In 2017, Governor Brown signed Senate Bill 751, which provided relief from the school district reserve cap for school districts. SB 751 raised the reserve cap percentage to 10% (from 6% required for most school districts), modified the reserve cap trigger, and applied the higher cap only to the assigned and unassigned balances.

The District cannot predict how this legislation will impact its reserves and future spending. See “State Funding of Education” herein.

### **Existing Debt Obligations**

**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 during previous fiscal years have been used to reduce interfund dependency and to provide the District with greater overall efficiency in the management of its funds. Currently, the District has no notes outstanding. The District has never defaulted on any of its short-term borrowings.

**Capitalized Lease Obligations.** The District has made use of various capital lease arrangements in the past 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 September 30, 2018, the District’s capital lease obligations total \$484,228.

The District recently paid off remaining outstanding 2006 Certificates of Participation and as of September 30, 2018, the remaining balance on the 2006 Certificates of Participation is zero.

On July 17, 2012, the District issued \$18,376,098.50 in Certificates of Participation for the purpose of implementing the District’s 2012 capital projects and refunding \$12,275,000 of the District’s 2006 Certificates of Participation. The District is required to make lease payments of principal and interest in conjunction with these Certificates of Participation. Semi-annual principal and interest payments are due each June and December 1, beginning in 2023 and ending in June 2042. See Note 8 in Appendix B – “Audited Financial Statements of the District for Fiscal Year Ended June 30, 2017” herein for a further discussion of Certificates of Participation.

**Long-Term Borrowings.** The District received authorization at the 2006 Election to issue \$37 million of general obligation bonds. On September 14, 2006, the County issued, on behalf of the District, the General Obligation Bonds, Election of 2006, Series 2006 Bonds (the “Series 2006 Bonds”). On September 18, 2008, the District issued the Series 2008 Bonds. No authorization remains under the 2006 Election. On November 13, 2016 the District issued the 2016 General Obligation Refunding Bonds (the “2016 Refunding Bonds”) to refund the outstanding Series 2006 Bonds and the Series 2008 Bonds.

At an election held on November 4, 2008 (the “2008 Election”), the District received authorization to issue \$47 million of general obligation bonds. On August 25, 2009, the District issued approximately \$34.43 million of General Obligation Bonds, Election of 2008, Series 2009 (the “Series 2009 Bonds”). After the district issues the Bonds, no authorization will remain under the 2008 Election. Approximately \$12.57 million of authorization under the 2008 Election remains unissued.

**General Obligation Bond Election of 2018.** On July 24, 2018, the Board approved a resolution to place a general obligation bond measure, asking voters to authorize the issuance of bonds in the amount of \$74,000,000, on the ballot for the November 6, 2018, general election. This election is authorized under the California Constitution and the Strict Accountability in Local School Construction Bonds Act of 2000. Measure J will become effective upon an affirmative vote of fifty-five percent (55%) of the voters of the District voting at the November 6, 2018 election.

The table below shows the District's combined outstanding long-term indebtedness as of October 1, 2014.

**MARYSVILLE JOINT UNIFIED SCHOOL DISTRICT  
COMBINED GENERAL OBLIGATION BONDS DEBT SERVICE SCHEDULES**

<u>Bond Year</u> <u>Ending August 1</u>	<u>Series 2009</u> <u>Bonds</u>	<u>2014 Refunding</u> <u>Bonds</u>	<u>2016 Refunding</u> <u>Bonds</u>	<u>Combined</u> <u>Debt Service</u>
2019	\$907,300.00	\$2,170,037.50	\$1,227,400.00	\$4,304,737.50
2020		2,251,637.50	2,124,600.00	4,376,237.50
2021		2,327,637.50	2,221,350.00	4,548,987.50
2022	755,000.00	2,397,137.50	1,630,350.00	4,782,487.50
2023	1,465,000.00	2,480,137.50	1,093,550.00	5,038,687.50
2024	1,580,000.00	2,560,637.50	1,091,950.00	5,232,587.50
2025	1,695,000.00	2,648,387.50	1,089,950.00	5,433,337.50
2026	1,825,000.00	2,742,637.50	1,092,550.00	5,660,187.50
2027		2,832,637.50	2,849,550.00	5,682,187.50
2028		2,926,937.50	2,970,750.00	5,897,687.50
2029		3,029,437.50	3,098,750.00	6,128,187.50
2030		3,132,337.50	3,229,450.00	6,361,787.50
2031		3,236,400.00	3,375,650.00	6,612,050.00
2032		3,180,850.00	3,521,400.00	6,702,250.00
2033		3,304,000.00	3,670,100.00	6,974,100.00
2034			3,826,450.00	3,826,450.00
2035	4,450,000.00			4,450,000.00
2036	4,645,000.00			4,645,000.00
<b>TOTAL</b>	<b>\$9,095,000.00</b>	<b>\$41,220,850.00</b>	<b>\$38,113,800.00</b>	<b>\$96,656,950.00</b>

*Source: Marysville Joint Unified School District and KNN Public Finance, LLC*

The District has never defaulted on its long-term borrowings.

**STATE FUNDING OF EDUCATION**

*The information in this section concerning State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied by Yuba County and Butte County on all taxable property in the District in an amount sufficient for the timely payment of principal of and interest on the Bonds.*

**State Funding of Education**

**General.** The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. As noted above, California school districts receive a significant portion of their general purpose funding from State appropriations. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts. See "Education Funding and Revenue Sources – Property Taxes" and "-State Funding of Education" above.

*The following information concerning the State's budgets has been compiled from publicly available information through the State Department of Finance, the State Treasurer, and the State's Legislative Analyst's Office. The District believes that State sources of information listed above are reliable. However, neither the District, the Counties, nor the Underwriter assumes any responsibility for the accuracy of such information relating to the State's budgets set forth or referred to herein.*

**The Budget Process.** The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Proposed Budget"). Under State law, the annual Proposed Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Proposed Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each house of the Legislature. 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 Legislature.

Appropriations also may 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 Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

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.

**Delays in Apportionments.** The State implemented various cash-flow management devices during a period of declining revenues and other fiscal challenges (beginning in 2008). Such devices included, the issuance of IOUs in lieu of warrants and legislative changes allowing for amounts owed to public school districts to be deferred to either later that same fiscal year or future fiscal years. As a result, some school districts increased the size or frequency of their tax and revenue note borrowings.

Although recent State budgets have been balanced and are projected to be balanced for the foreseeable future, there can be no certainty that such cash-flow management devices or other budgeting strategies such as those utilized in recent years will not be used again should the State budget face fiscal challenges in the future.

## **2018-19 Adopted State Budget**

**2018-19 State Budget.** On June 27, 2018, the Governor signed the Budget Act of 2018 and associated trailer bills to enact the fiscal year 2018-19 State budget (the "2018-19 State Budget"). The 2018-19 State Budget sets forth a balanced budget for fiscal year 2018-19 that projects approximately \$133.33 billion in revenues, and \$83.82 billion in non-Proposition 98 expenditures and \$54.87 billion in Proposition 98 expenditures.

The 2018-19 State Budget includes a \$1.96 billion reserve in the Special Fund for Economic Uncertainties. The 2018-19 State Budget uses dedicated proceeds from Proposition 2 to pay down approximately \$1.75 billion in past budgetary borrowing and State employee pension liabilities. The 2018-19 State Budget includes total funding of \$97.2 billion (\$56.1 billion General Fund and \$41.1 billion other

funds) for all K-12 education programs. The 2018-19 State Budget provides \$3.7 billion in new funding for the LCFF, which fully implements the school district and charter school formula two years earlier than originally scheduled, including both a 2.71% cost of living adjustment and an additional \$570 million above the cost of living adjustment as an ongoing increase to the formula. The 2018-19 State Budget also provides \$300 million one-time Proposition 98 General Fund resources for the Low-Performing Students Block Grant, which will provide resources in addition to LCFF funds to local educational agencies with students who perform at the lowest levels on the State's academic assessments and do not generate supplemental LCFF funds or State or federal special education resources.

The 2018-19 State Budget provides for certain adjustments in education spending, including the following:

*Statewide System of Support.* The 2018-19 State Budget includes \$57.8 million in Proposition 98 General Fund resources for county offices of education to provide technical assistance to school districts, of which \$4 million will go towards geographical regional leads to build systemwide capacity to support school district improvement.

*Multi-Tiered Systems of Support (MTSS).* The 2018-19 State Budget includes \$15 million one-time Proposition 98 General Fund resources to expand the State's MTSS framework to foster positive school climate in both academic and behavioral areas.

*Community Engagement Initiative.* The 2018-19 State Budget includes \$13.3 million one-time Proposition 98 General Fund resources for the California Collaborative for Educational Excellence and a co-lead county office of education to help school districts build capacity for community engagement in the LCAP process.

*California Collaborative for Educational Excellence.* The 2018-19 State Budget includes \$11.5 million Proposition 98 General Fund resources to support the California Collaborative for Educational Excellence in its role within the statewide system of support.

*Special Education Local Plan Area (SELPA) Technical Assistance.* The 2018-19 State Budget includes \$10 million Proposition 98 General Fund resources for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance (specific to students with exceptional needs) within the statewide system of support.

*Dashboard Improvement.* The 2018-19 State Budget includes \$300,000 one-time Proposition 98 General Fund resources to improve the user interface of the California School Dashboard.

*LCFF Budget Summary for Parents.* The 2018-19 State Budget includes \$200,000 one-time Proposition 98 General Fund resources to develop the electronic template for the LCFF Budget Summary for Parents, which will help stakeholders better understand funding decisions made within the LCAP.

*LCAP Redesign.* The 2018-19 State Budget includes \$200,000 one-time Proposition 98 General Fund resources to support intended future legislation to streamline the LCAP.

*Strong Workforce Program.* The 2018-19 State Budget includes \$164 million ongoing Proposition 98 General Fund resources to establish a K-12 specific component within the Strong Workforce Program designed to encourage local educational agencies to offer high quality career technical education programs that are aligned with needed industry skills and regional workforce development efforts occurring through the existing Strong Workforce Program.

## **Legal Challenges to State Funding of Education**

The application of Proposition 98 and other statutory regulations have been the subject of various legal challenges in the past. The District cannot predict if or when there will be changes to education funding or legal challenges which may arise relating thereto.

## **Additional Information for State Finances**

The full text of proposed and adopted State budgets may be found at the internet website of the California Department of Finance, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." The Legislative Analyst's Office's ("LAO") budget overviews and other analyses may be found at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading "Products." In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov) or through the Municipal Securities Rulemaking Board's EMMA website at [emma.msrb.org](http://emma.msrb.org).

Periodic reports on revenues and/or expenditures during the Fiscal Year are issued by the Governor's Office, the State Controller's Office and the LAO. The Department of Finance issues a monthly Bulletin, which reports the most recent revenue receipts as reported by state departments, comparing them to Budget projections. The Governor's Office also formally updates its budget projections three times during each Fiscal Year, in January, May and at budget enactment. These bulletins and other reports are available on the internet.

The information referred to above is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

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

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

## **Constitutionally Required Funding of Education**

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. Decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts



## Article XIII A of the California Constitution

**Basic Property Tax Levy.** On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution. Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness approved by two-thirds of the voters on or after July 1, 1978, for the acquisition or improvement of real property, and (iii) bonded indebtedness approved by 55% of the voters of a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities. As described under "The Bonds – Authority for Issuance," the District received authorization by the requisite percent of voters to issue the Bonds.

Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A permits reduction of the full cash value base in the event of a decline in property value caused by damage, destruction, or other factors. The full cash value base is not increased upon reconstruction of property damaged or destroyed in a disaster, if the fair market value of the property as reconstructed is comparable to its fair market value before the disaster. If the full cash value has been reduced owing to a decline in market value, the full cash value is restored to the full cash value base as quickly as the market price increases (without regard to the 2% limit on increases that otherwise applies).

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

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

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

## Article XIII B of the California Constitution

Under Article XIII B of the California Constitution, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain monies that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of moneys that are excluded from the definition of "appropriations subject to limitation," such as appropriations for voter-approved debt service, appropriations required to comply with certain mandates of the courts or the federal government, and appropriations for qualified capital outlay projects (as defined by the Legislature).

The appropriations limit for each agency in each year is based on the agency's limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted where

applicable for transfer to or from another governmental entity of financial responsibility for providing services. With respect to school districts, "change in cost of living" is defined as the percentage change in California per capita income from the preceding year and "change in population" means the percentage change in average daily attendance for the preceding year.

The appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by an agency over such two-year period above the combined appropriations limit for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. Under current statutory law, a school district that receives any proceeds of taxes in excess of the allowable limit need only notify the State Director of Finance and the District's appropriations limit is increased and the State's limit is correspondingly decreased by the amount of the excess.

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

Articles XIII C and XIII D of the California Constitution, adopted by Proposition 218 in November 1996, impose certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property related fees and charges. The District does not impose any such taxes, assessments, fees or charges; and, with the exception of *ad valorem* property taxes levied and collected by the Counties under Article XIII A of the California Constitution and allocated to the District, no such taxes, assessments, fees or charges are imposed on behalf of the District. Accordingly, while the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Bonds.

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The initiative power is, however, limited by the United States Constitution's prohibition against state or local laws "impairing the obligation of contracts." The District's general obligation bonds represent a contract between the District and the bondholder secured by the collection of *ad valorem* property taxes. While not free from doubt, it is likely that, once issued, the taxes needed to pay debt service on general obligation bonds would not be subject to reduction or repeal. 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 U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The interpretation and application of Proposition 218 and the U.S. Constitution's contracts clause will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

### **Proposition 98**

California voters approved Proposition 98, a constitutional and statutory amendment called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act") on November 8, 1988. Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act guarantees State funding for K-12 school districts and community college districts

(hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's budget.

### **Proposition 111**

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111"), which modified the State Constitution to alter the Article XIII B spending limit and the education funding provisions of Proposition 98.

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

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

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

*Exclusions from Spending Limit.* Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the State Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such

increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

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

*School Funding Guarantee.* There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "Test 1") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "Test 2"). Under Proposition 111, schools will receive the greater of (1) Test 1, (2) Test 2, or (3) a third test ("Test 3"), which will replace Test 2 in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under Test 3, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 will become a "credit" to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, voters within the State approved an amendment (commonly known as Proposition 39) to the State Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds, and (2) changes existing statutory law regarding charter school facilities. The local school jurisdictions affected by this proposition are K-12 school districts, including the District, community college districts, and county offices of education.

The 55 percent vote requirement applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board 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.

Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district), per \$100,000 of taxable property value, when assessed valuation is projected to increase in accordance with Article XIII A. The Governor can change these limitations with a majority vote of both houses of the State Legislature and approval; unlike constitutional amendments, which may be changed only with another statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the State Legislature and approval by the Governor, but only to further the purposes of the proposition.

### **Proposition 1A**

On November 2, 2004, California voters approved Proposition 1A amending the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under

Proposition 1A, the State may not reduce any local sales tax rates or alter the method of allocation, shift property taxes from local governments to schools or community colleges, make changes in how property taxes revenues are shared among local governments without two-thirds approval of both houses of the State Legislature, or decrease vehicle license fees without providing local governments with equal replacement funding.

Under Proposition 1A, the State may divert no more than eight percent of local property tax revenues for State purposes (including but not limited to funding K-12 education) only if: (i) the Governor declares such action to be necessary due to a State fiscal emergency, (ii) two-thirds approval of both houses of the State Legislature, (iii) the amount diverted is required to be repaid within three years, and (iv) certain other conditions are met.

## **Proposition 22**

Approved by voters at the November 2, 2010 election, Proposition 22 was a constitutional initiative to amend the State Constitution. Proposition 22 superseded many of the provisions of Proposition 1A. The effect of Proposition 22 was to prohibit the Legislature from diverting or shifting tax revenues dedicated to transportation, redevelopment, or local government projects and services. Under this Proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. However, Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

Because Proposition 22 reduces the State's authority to use or reallocate certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget, such as reducing State spending or increasing State taxes, and school and college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

## **Proposition 30**

On November 6, 2012, State voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,001 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

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

The California Children's Education and Health Care Protection Act of 2016, also known as Proposition 55, is a constitutional amendment approved by the voters of the State on November 8, 2016. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030. Tax revenue received under Proposition 55 is allocated 89% to K-12 schools and 11% to community colleges. Proposition 55 did not extend the sales tax rate increase enacted under Proposition 30.

#### **California Senate Bill 222**

Senate Bill 222 was signed by the California Governor on July 13, 2015 and became effective on January 1, 2016. SB 222 amended Section 15251 of the California Education Code and added Section 52515 to the California Government Code to provide that voter-approved general obligation bonds which are secured by *ad valorem* tax collections, such as the Bonds, are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Such lien shall attach automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the issuer, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act. The effect of SB 222 is the treatment of general obligation bonds as secured debt in bankruptcy due to the existence of a statutory lien.

#### **Kindergarten Through Community College Public Education Facilities Bond Act of 2016**

The Kindergarten Through Community College Public Education Facilities Bond Act of 2016 (also known as "Proposition 51") is a voter initiative that was approved by voters on November 8, 2016. Proposition 51 authorizes the sale and issuance of \$9 billion in general obligation bonds for the new construction and modernization of K-14 facilities. The District makes no guarantee that it will either pursue or qualify for Proposition 51 state facilities funding.

**K-12 School Facilities.** Proposition 51 includes \$3 billion for the new construction of K-12 facilities and an additional \$3 billion for the modernization of existing K-12 facilities. K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. If a school district lacks sufficient local funding, it may apply for additional state grant funding, up to 100% of the project costs. In addition, a total of \$1 billion will be available for the modernization and new construction of charter school (\$500 million) and technical education (\$500 million) facilities. Generally, 50% of modernization and new construction project costs for charter school and technical education facilities must come from local revenues. However, schools that cannot cover their local share

for these two types of projects may apply for State loans. State loans must be repaid over a maximum of 30 years for charter school facilities and 15 years for career technical education facilities. For career technical education facilities, state grants are capped at \$3 million for a new facility and \$1.5 million for a modernized facility. Charter schools must be deemed financially sound before project approval.

#### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and the Propositions discussed above were each adopted as measures that qualified for the ballot under the State's initiative process. From time-to-time, other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**  
**FOR FISCAL YEAR ENDED JUNE 30, 2017**

*[see attached]*



## APPENDIX C

### GENERAL INFORMATION ABOUT YUBA COUNTY AND CITY OF MARYSVILLE

*The following information concerning the County of Yuba (the "County") and the City of Marysville (the "City") is included only for the purpose of supplying general information regarding the area of the Marysville Joint Unified School District (the "District"). The Bonds are not a debt of the City, the County, the State of California (the "State") or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.*

#### General Information

The boundaries of the District cover an area of approximately 1,700 square miles of the central and northern portion of the County and a portion of Butte County. The County is located approximately thirty miles north of the State capital of Sacramento. The City, in the northern part of gold rush country, is the County seat.

#### Population

The following table lists population figures for the County and the State for calendar years 2013 through 2018.

#### COUNTY OF YUBA AND CITY OF MARYSVILLE Population Estimates Calendar Years 2013 through 2018

County/City	2013	2014	2015	2016	2017	2018
<u>California</u>						
Incorporated Total	31,829,215	32,120,874	32,429,156	32,677,917	32,957,372	33,235,160
Balance Of State						
Total	<u>6,405,176</u>	<u>6,447,754</u>	<u>6,483,308</u>	<u>6,501,710</u>	<u>6,543,601</u>	<u>6,574,533</u>
State Total	38,234,391	38,568,628	38,912,464	39,179,627	39,500,973	39,809,693
Yuba County	73,343	73,646	74,044	74,328	74,645	74,727
City of Marysville	12,038	11,971	11,875	11,814	11,829	11,883

*Source: State of California, Department of Finance, E-5 Population and Housing Estimates for Cities, Counties, and the State, January 1, 2011-2018. Sacramento, California, May 2018.*

## Unemployment

The following table contains a summary of the County's unemployment data, not seasonally adjusted, rounded to the nearest hundred.

### COUNTY OF YUBA Historical Civilian Labor Force Unemployment Data

	Annual 2013	Annual 2014	Annual 2015	Annual 2016	August 2017
Labor Force	28,300	28,000	27,900	28,100	28,500
Employment	24,500	24,800	25,300	25,700	26,400
Unemployment	3,700	3,100	2,600	2,400	2,100
Unemployment Rate	13.2%	11.2%	9.3%	8.6%	7.5%

Source: State of California Employment Development Department, Labor Market Information Division, March 2017 Benchmark, dated March 13, 2018.

The following table contains a summary of the City's unemployment data, not seasonally adjusted, rounded to the nearest hundred.

### CITY OF MARYSVILLE Historical Civilian Labor Force Unemployment Data

	Annual 2013	Annual 2014	Annual 2015	Annual 2016	August 2017
Labor Force	4,600	4,500	4,500	4,600	4,800
Employment	4,000	4,000	4,100	4,200	4,400
Unemployment	600	500	400	400	400
Unemployment Rate	13.0%	11.1%	9.1%	8.4%	7.8%

Source: State of California Employment Development Department, Labor Market Information Division, March 2016 Benchmark, dated April 21, 2017 (for 2013 through 2016 data); State of California Employment Development Department, Labor Market Information Division, March 2017 Benchmark, dated March 13, 2018 (for 2017 data).

## Major Employers

The following tables list the 25 major employers within the County, listed alphabetically:

### COUNTY OF YUBA Major Employers

Employer Name	Location	Industry
Abraham Lincoln High School	Marysville	Schools
BEALE Air Force Base	Beale AFB	Military Bases
Bear River School	Wheatland	Schools
Bishop's Pumpkin Farm	Wheatland	Fruits & Vegetables & Produce-Retail
FOODMAXX	Marysville	Grocers-Retail
Hunam Services Agency-Furn	Marysville	Health & Welfare Agencies
Linda Elementary School	Marysville	Schools
Lindhurst High School	Olivehurst	Schools
Lone Tree School	Beale AFB	Schools
Marysville Care & Rehab Ctr	Marysville	Nursing & Convalescent Homes
Marysville Joint Unified School District	Marysville	School Districts
Recology Yuba-Sutter	Marysville	Garbage Collection
Rideout Emergency	Marysville	Emergency Minor Medical Facilities/Svcs
Rideout Memorial Hospital	Marysville	Hospitals
Rideout Outpatient	Marysville	Physicians & Surgeons
Shoei Foods USA Inc	Olivehurst	Importers (whls)
South Lindhurst High School	Olivehurst	Schools
Toyota Amphitheatre	Wheatland	Concert Venues
Transdev	Marysville	Transportation Services
Transportation Department	Marysville	Government Offices-State
Transportation Dept-Equipment	Marysville	State Government-Transportation Programs
US Post Office	Marysville	Post Offices
Walmart Supercenter	Marysville	Department Stores
Wilbur Richard R Ranch	Marysville	Ranches
Yuba College	Marysville	Schools-Universities & Colleges Academic
Yuba County Health & Human Svc	Marysville	Clinics

Source: America's Labor Market Information System (ALMIS) Employer Database, 2018 2<sup>nd</sup> Edition.

## Taxable Sales

Total taxable sales reported during the calendar year 2016 in the County were reported to be \$525,020,000 (rounded), an approximately 5.40% increase over the total taxable sales of \$498,129,000 (rounded) reported during calendar year 2015. Data for calendar year 2017 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (roundest to the nearest thousand) in the County is presented in the following table.

### COUNTY OF YUBA Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>(1)</sup></u>	<u>2016<sup>(2)</sup></u>
Sales Tax Permits	1,199	1,244	1,245	1,372	1,379
Taxable Sales (000's)	\$486,296	\$503,475	\$503,463	\$498,129	\$525,020

(1) Beginning in 2015, the outlet counts in the annual reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

(2) Latest data available.

Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax) annual reports.

Total taxable sales reported during the calendar year 2016 in the City of Marysville were reported to be \$140,721,000 (rounded), a decrease of approximately 4.39% from the total taxable sales of \$147,186,000 (rounded) reported during calendar year 2015. Data for calendar year 2017 is not yet available.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (roundest to the nearest thousand) in the City of Marysville is presented in the following table.

### CITY OF MARYSVILLE Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015<sup>(1)</sup></u>	<u>2016<sup>(2)</sup></u>
Sales Tax Permits	336	359	366	389	400
Taxable Sales (000's)	\$170,649	\$171,110	\$165,332	\$147,186	\$140,721

(1) Beginning in 2015, the outlet counts in the annual reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

(2) Latest data available.

Source: State Board of Equalization, Taxable Sales in California (Sales & Use Tax) annual reports.

**APPENDIX D**  
**FORM OF OPINION OF BOND COUNSEL**

*[To Come]*

**APPENDIX E**  
**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

[Insert form of Continuing Disclosure Certificate]

## APPENDIX F

### DTC BOOK-ENTRY ONLY SYSTEM

*The information below has been provided by DTC for use in securities offering documents, and the District does not take responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or DTC Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do in a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.*

*The following description is of DTC, its procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, other payments with respect to the Bonds to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds, notices to Beneficial Owners and other related transactions by and between DTC, the participants, and the Beneficial Owners. However, DTC, the participants, and the Beneficial Owners should not rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be.*

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

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

Purchases of the 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 the Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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 and 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 the 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 the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar 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 any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments 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 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, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 services as depository with respect to the Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, 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.

**APPENDIX G  
COUNTY OF YUBA INVESTMENT POLICY**

**COUNTY OF YUBA INVESTMENT POOL  
STATEMENT OF INVESTMENT POLICY**

As designated by Board of Supervisors under the laws of the State of California, it is the responsibility of the County Treasurer, to secure and protect the public funds of the County, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are not immediately required for daily operations, in a manner anticipated to provide additional benefit to the people of the County of Yuba. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County, rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments and other financial duties separately. This pooling of public funds not only eliminates duplication of expenses, but also smooths out cash flow differences, permits cost savings through higher volume, and attracts more professional service providers. This document contains the policies, procedures, and legalities guiding the County Treasurer when investing the Pool's temporarily unemployed funds.

This Statement of Investment Policy is reviewed no less than annually and may be adjusted as needed to reflect any changes in the Government Code or investment practices. Upon request, this Policy will be provided to participants in the County Investment Pool; to securities dealers, banks and brokers currently approved for conducting investment transactions with the County Treasurer's office in the ongoing effort to manage the excess cash portfolio; to other involved persons or entities; and to any member of the electorate wishing to review this document. The Treasurer reserves the right to provide these documents on a cost basis.

**SCOPE**

This Statement of Investment Policy pertains to those temporarily surplus funds under the control of the Treasurer, designated for the daily ongoing operations of the County-Pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, delayed compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool. Percentage limitations noted within this Policy shall apply to all money considered to be within the County Investment Pool. Any investments existing outside the Pool shall be subject to the local agency's individual percentages.

**PURPOSE OF POLICY STATEMENT**

The purpose of this Statement of Investment Policy is to provide those entities participating in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed to not be required to meet immediate cash flow requirements.

**TREASURY OBJECTIVES**

The primary and overriding objective of the Treasurer is to protect the safety of the principal of the Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

**Safety:** It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

**Liquidity:** It is imperative that a vast majority of all investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

**Availability:** Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available, without risk of trading loss, to pay normal cash requirements. A vast majority of the moneys invested by the Treasurer should never require the realization of immoderate losses should an unforeseen cash demand require the sale of investments prior to maturity. A sufficient portion of all funds shall be invested in securities providing a high degree of availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

**Yield:** While it is considered desirable to obtain a yield commensurate to current conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than either safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a respectable rate of return, not attempting to maximize yield at the expense of either safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

## **PRUDENCE**

The Treasurer is subject to the "Prudent Person Rule" whenever making a decision regarding the investment of the Pool's funds. This rule states, in principle:

*"In investing property for the benefit of others, a trustee shall exercise the judgment and care, under circumstances then prevailing, that persons of prudence, discretion and intelligence, would exercise in the management of their own affairs - not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable safety of, as well as the probable income from, their capital."*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

## **DELEGATION OF AUTHORITY**

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day to day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the Pool, as of the date entered on this Policy, are listed below. This list is subject to

change, and those parties newly involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

## TITLE

Assistant Treasurer and Tax Collector

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. Only the persons listed on a current *Trading Authorization & Agreement*, and the Treasurer, may initiate trading activity.

## SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable, deliverable, securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

## AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Securities brokers dealing with the County Pool should possess a complete understanding of these Code sections.

An attached Addendum briefly describes the types of securities legal within the Government Code sections noted above and outlines the various limitations included in these sections. Except for the restrictions noted below in this section, all legality permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer under this Policy, various temporary and more restrictive constraints may at times be deemed beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but may be obtained by requesting a current "Temporary Constraints and Restrictions on Investments" document, which will change on an "as needed" basis. These constraints or restrictions may only be *more* restrictive than those of the Policy, but may *not* be *less* restrictive. Securities Brokers and Dealers should be aware of these temporary conditions in order to save time and best serve the County Pool.

Though the Government Code sections define the investment types and terms permissible to the Treasurer, the Treasurer currently will not:

- ◆ Invest in any security or investment with a stated or potential final maturity longer than five years, unless the conditions of the security include terms that permit the purchaser to *unconditionally* "put", or sell back, to the *original issuer*, the security prior to five years from

the purchase date; or the Board of Supervisors has pre-approved, as required by the Government Codes.

- ◆ Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- ◆ Purchase any security wherein under terms inherent to the security, or the investment agreement under which the security is purchased, circumstances could result wherein the investment runs a risk of earning a rate of return substantially below other investments obtainable on a fixed rate basis at the time of purchase, or drastically different than the prevailing rate during any time prior to the maturity of the issue.
- ◆ Purchase any Collateralized Mortgage Obligation or Collateralized Debt Obligation.
- ◆ Invest in futures or options.

### **AUTHORIZED DEALER LIST**

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. To qualify for Authorized Dealer status, a brokerage firm or bank must:

- 1) Be a dealer operation properly licensed to deal with local agencies in California, **and;**
  - 2) Have a minimum of \$10mm in capital, or, be a Primary Dealer of the Federal Reserve Bank of New York; **and;**
  - 3) Be headquartered in the State of California, or, the City of New York, or be the direct issuer of security type normally purchased by the Treasurer;
- a  
**Or;**  
has
- Be a department or subsidiary of an insured bank with minimum assets of \$100mm that the County comprehensive banking relationships with;

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

- 1) Their reasons for believing they would add value to the present coverage; **and,**
- 2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; [**or,** a list of those dealers they are able to represent, and the securities they regularly position;] **and,**
- 3) A list of ten references, at least five being California local agency treasurers, including telephone numbers that the Treasurer or his representative may contact.

The Treasurer will instigate an investigation of the applying salesperson and the firm through various sources, including but not limited to the California Department of Corporations, Financial Industry Regulatory Authority (FINRA), and the National Association of Securities Dealers (NASD), to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer. The Treasurer will review all new requests at the end of each quarter, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, is prohibited from dealing with a salesman, broker, or account executive from any broker, dealer or bank investment department or bank subsidiary until the Acknowledgment form found on the last page of the Trading Authorization and Agreement is signed by all parties and received by the Treasurer. The Trading Authorization and Agreement is sent out to all approved dealers, and is an integral addition to this Policy Statement for Brokers/ Dealers, etc. doing investment business with the County Treasurer.

Similar restrictions and forms may be required of those firms doing business with the County Pool through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G 37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

### **THE COUNTY TREASURY OVERSIGHT COMMITTEE**

The County Board of Supervisors and the Treasurer do not currently have a Treasury Oversight Committee. This is in accordance with the State dropping the mandate for such a committee as well as the cost associated with establishing, conducting and maintain an oversight committee. By law, the Oversight Committee shall have no authority to require discussion, attempt to direct, or in any way interfere with the process or daily operation of any portion of the Treasury department, nor shall the Committee attempt to play any role in determining which banks, firms or individuals the Treasurer does business with, nor shall the Committee be involved at all in determining which investments the Treasurer purchases, but shall act solely to review the actions of the Treasurer to determine that they are in accordance and compliance with the Investment Policy and all other legal requirements or regulations.

### **TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL**

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is responsible for overseeing, are to be invested. The Treasurer must take into consideration the current financial condition of the sum total of the Pool's agencies, the conditions of the market place, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all others affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's

staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

### **FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL**

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Pool. Funds will earn interest based on the average daily balance, paid on a quarterly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least two years, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not counter-productive to the Pool as a whole, the Treasurer will determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time, without the specific permission of the Treasurer. Any such investments shall either be terminated and all funds returned to the Pool, or the securities so purchased shall be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

### **MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL**

By Code, the County Treasurer shall set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds.

Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participant in the Pool, shall be accepted under the terms existing in this Policy, along with any additional terms the Treasurer deems prudent, given the entity's particular situation. Voluntary money maybe withdrawn under conditions set forth in Sections 27133 and 27136 of the Government Codes and as previously specified in any agreements made with the Treasurer. Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

### **APPORTIONING OF COSTS AND INTEREST**

All costs related to investing, maintaining and accounting for the investments purchased for the Investment Pool, as authorized by Section 27013, shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earning shall be apportioned on the same basis and also distributed quarterly.

## **REPORTING**

The Treasurer generally makes adjustments to the County Pool Investment Policy near the beginning of the calendar year and makes the revised document available to those requesting it. Other reports on the holdings, status and earnings of the portfolio may also be available during the year.



## Addendum

### Legal Pool Investments\*

<u>Investment Type</u>	<u>Max. % of Portfolio</u>	<u>Max. Maturity</u>	<u>Quality Requirements</u>
a) Bonds issued by a local agency	None	None	None
b) Treasury obligations	None	None	None
c) State of California Obligations	None	None	None
d) State & local Obligations from the other 49 states	None	None	None
e) Obligation of Calif. local agency	None	None	None
f) Obligations issued by Federal Agencies and U.S. Government Sponsored Enterprises	None	None	None
g) Bankers Acceptances	40%	180 days max.	None
h) Commercial Paper	40%	270 days max.	U.S. entity with credit enhancements resulting in paper rating A1/P1 or better; with \$500MM in assets; A or higher long term rating if any; max. 10% of portfolio per issuer.
i) Negotiable C.D.s	30%	5 years	None
j) Repurchase Agreements	None	1 year	Collateral must be a legal investment of 102%
Reverse Repurchase Agreements	20% of base	92 days max., or to maturity	None
k) Medium Term Note	30%	5 years	U.S. Corporations, or Banks licensed within any State of the U.S., "A" or better rating by major rating service.
l) Mutual Funds	20%, 10% per fund	NA	A defined money market fund; or invest only in a-j, m, n, of this list, as restricted; Highest letter and number ranking of 2 of 3 rating services; or a SEC Registered Advisor with 5 Yrs. experience, managing assets of \$500MM or more; No load. Not contrary to 53601 & 35 and other pertinent law.
m) Investments as permitted by provision in agreements of indebtedness	As per bond documentation	NA	As required by 53652
n) Asset secured indebtedness	None	None	Issuer must be rated "A" minimum, security must be "AA" by national rating service.
o) Collateralized Mortgage obligations	20%	5 years	None
p) Joint Powers authority	None	None	None
q) Contracted Non-Neg. Time Deposits	None	None	None
635.8) Deposited Pooled small C.D.s	30%	None	Insured as to principle and interest

*These tables are not meant to be a replacement for the Government Code. Involved parties should obtain a valid, updated copy of the pertinent Code sections to fully understand all the details included within these Code*

**APPENDIX H**  
**[SPECIMEN MUNICIPAL BOND INSURANCE POLICY]**