

NEW ISSUE
DTC BOOK-ENTRY ONLY
CUSIP NO. 238848 ____⁺

S&P Rating: “__”
See “RATING” herein

In the opinion of Parker & Covert LLP, Sacramento, California, Bond Counsel, based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Notes is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See “LEGAL MATTERS—Tax Matters” herein.



\$_____,000*
DAVIS JOINT UNIFIED SCHOOL DISTRICT
YOLO COUNTY, CALIFORNIA
2017-2018 TAX AND REVENUE ANTICIPATION NOTES

Dated: Date of Delivery

Due: June 29, 2018

The Davis Joint Unified School District, Yolo County, California, 2017-2018 Tax and Revenue Anticipation Notes (the “Notes”) are being issued to finance seasonal cash flow requirements of the Davis Joint Unified School District (the “District”) during the fiscal year ending June 29, 2018 (the “Fiscal Year”). The Notes will be initially issued in book-entry form only through the book-entry system of The Depository Trust Company (“DTC”). See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Notes, in accordance with the laws of the State of California (the “State”), represent a general obligation of the District, payable solely from taxes, income, revenue, cash receipts, and other moneys received by or accruing to the general fund of the District during the Fiscal Year and legally available for the payment of the Notes. The Notes are secured by a pledge of an amount equal to the aggregate principal amount of the Notes, together with an amount sufficient to pay the interest thereon, from the Unrestricted Revenues (defined herein) to be received by the District in the months during the Fiscal Year as described herein (the “Pledged Revenues”). The Notes, to the extent not paid from Pledged Revenues, are payable only from any other taxes, income, revenues, cash receipts and moneys of the District lawfully available therefor.

The Notes are legal investments for commercial banks in the State and are eligible to secure deposits of public moneys in the State.

The Notes will be dated their date of delivery. The rate of interest and the offering price for the Notes are set forth below. The Yolo County Chief Financial Officer, as paying agent on the Notes, will pay the principal of and interest on the Notes at maturity by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the owners of the Notes. The Notes are not subject to redemption prior to maturity.

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

MATURITY SCHEDULE

<u>Amount</u>	<u>Maturity</u>	<u>Coupon Interest Rate</u>	<u>Reoffering Yield</u>
\$_____,000*	June 29, 2018	__%	__%

The Notes are being purchased for re-offering by _____, as underwriter of the Notes (the “Underwriter”). The Notes are offered when, as and if issued by the County of Yolo on behalf of the District and received by the Underwriter, subject to approval as to their legality by Parker & Covert LLP, Sacramento, California, Bond Counsel. It is anticipated that the Notes, in definitive form, will be available for delivery through the facilities of DTC on or about October 11, 2017.

This Official Statement is dated _____, 2017.

*Preliminary, subject to adjustment.

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

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

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

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

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

Information in Official Statement. The information set forth herein has been furnished by the District and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

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

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based change.

Statement of Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

\$ __, __, 000*
DAVIS JOINT UNIFIED SCHOOL DISTRICT
YOLO COUNTY, CALIFORNIA
2017-2018 TAX AND REVENUE ANTICIPATION NOTES

DISTRICT BOARD OF EDUCATION

Barbara Archer, President
Tom Adams, Vice President/Clerk
Alan Fernandes, Member
Bob Poppenga, Member
Madhavi Sunder, Member

DISTRICT ADMINISTRATION

John A. Bowes, Ed.D., Superintendent
Bruce Colby, Chief Business and Operations Officer
Rody Boonchouy, Ed.D., Associate Superintendent of Instructional Services
Matt Best, Deputy Superintendent of Administrative Services

Davis Joint Unified School District
526 B Street
Davis, California 95616
(530) 757-5300

MUNICIPAL ADVISOR

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BOND COUNSEL

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PAYING AGENT

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Woodland, California 95695
(530) 666-8625

\$ __, __, 000*

DAVIS JOINT UNIFIED SCHOOL DISTRICT
YOLO COUNTY, CALIFORNIA
2017-2018 TAX AND REVENUE ANTICIPATION NOTES

TABLE OF CONTENTS

	<u>Page #</u>
INTRODUCTORY STATEMENT	1
General	1
The District	1
Purpose of Issue	1
Authority for Issuance	2
Description of Notes	2
Source of Payment for the Notes	2
Continuing Disclosure	2
Professionals Involved	2
Other Information	3
THE NOTES	3
Authority for Issuance	3
Purpose of Issue	3
Form and Registration	3
Payment of Principal and Interest	4
Transfer and Exchange	4
Investment of Operating Funds, Note Proceeds, and Repayment Funds	4
Sources and Uses of Funds	5
SECURITY AND SOURCES OF REPAYMENT FOR THE NOTES	5
Actual and Projected Monthly Cash Flows	6
Other District Funds	7
Borrowing from Other Agencies	7
Bankruptcy Risks	7
YOLO COUNTY INVESTMENT POOL	8
THE DISTRICT	9
General Information	9
The District Board of Education and Key Administrative Personnel	9
Enrollment	10
Charter Schools	10
Parcel Tax	11
Employee Relations	11
Pension Plans	11
Other Postemployment Benefits (OPEB)	15
DISTRICT FINANCIAL INFORMATION	15
Accounting Practices	15
Budget and Financial Reporting Process	16
Financial Statements	17
Revenues	19
Expenditures	21
Short-Term Borrowings	22
Capitalized Lease Obligations	22
Long Term Borrowings	22

TAXATION AND APPROPRIATION	24
Introduction	24
Assessed Valuation of Property	24
Largest Taxpayers	25
Alternative Method of Tax Apportionment.....	26
Tax Collections and Delinquencies	27
CITY AND COUNTY ECONOMIC PROFILE	27
General Information	27
Population.....	28
Personal Income	28
Labor Force and Employment.....	28
Major Employers	30
Commercial Activity	30
Construction Activity	31
FUNDING OF PUBLIC EDUCATION IN THE STATE.....	32
Sources of Revenue for Public Education	32
The State Budget Process	34
The 2016-17 State Budget	35
The 2017-18 State Budget	37
Future Budgets	40
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES	40
Background	40
Article XIII A of the State Constitution	41
Constitutional Protection For Owners of Municipal Securities	42
Article XIII B of the State Constitution	42
Articles XIII C and XIII D of the State Constitution	42
Minimum Guarantee of State Funding for Education	43
Community Redevelopment and Revitalization.....	43
Limits on State Authority Over Local Tax Revenues	44
Temporary State Tax Increases	44
Enacted Budget Required for Disbursement of State Funds	45
State and School District Budgetary Reserves	45
School Facilities Funding	46
Impact of Future Legislation	46
LEGAL MATTERS	47
No Litigation	47
Legal Opinion	47
Tax Matters.....	47
Legality for Investment in California	48
RATING.....	48
MUNICIPAL ADVISOR	49
INDEPENDENT AUDITOR	49
UNDERWRITING AND INITIAL OFFERING PRICE	49
CONTINUING DISCLOSURE	49
ADDITIONAL INFORMATION	49
 APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2016	
APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX C—FORM OF OPINION OF BOND COUNSEL	
APPENDIX D—COUNTY OF YOLO INVESTMENT POLICY	
APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM	

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OFFICIAL STATEMENT

\$ __, __, 000*

DAVIS JOINT UNIFIED SCHOOL DISTRICT YOLO COUNTY, CALIFORNIA 2017-2018 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTORY STATEMENT

General

The purpose of this Official Statement, which includes the cover page, table of contents and attached appendices (the “Official Statement”), is to provide certain information concerning the sale and delivery of the Davis Joint Unified School District, Yolo County, California, 2017-2018 Tax and Revenue Anticipation Notes issued in the aggregate principal amount of \$ __, __, 000* (the “Notes”).

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

The District

The Davis Joint Unified School District (the “District”), established in 1962, is a political subdivision of the State of California (the “State”). Encompassing approximately 130 square miles, the District serves a population of approximately 77,000 people residing in the southern portion of Yolo County (the “County”) and a small portion of northeastern Solano County. The District provides education to approximately 8,000 students in transitional kindergarten through twelfth grade, as well as additional students in preschool programs and adult education. The District operates nine elementary schools, one serving kindergarten through third grade and eight serving kindergarten through sixth grade; three junior high schools serving seventh through ninth grade; one traditional senior high school serving tenth through twelfth grade; a charter school serving students in seventh through twelfth grade; an independent study school and an alternative continuation high school; children’s center; and adult school, all of which are located in the County. The District is governed by a five-member Board of Education (the “District Board”). See “THE DISTRICT” and “DISTRICT FINANCIAL INFORMATION” herein.

Purpose of Issue

The proceeds of the Notes will be used for current expenditures of the District’s general fund (the “General Fund”), including but not limited to current expenses, capital expenditures and the discharge of other obligations or indebtedness of the District.

* Preliminary; subject to adjustment

Authority for Issuance

The Notes are being issued by the District in full conformity with the California Constitution (the “State Constitution”) and certain provisions of the California Government Code (the “Government Code”) Section 53850 *et seq.* (the “Law”) and pursuant to a resolution adopted by the District Board on August 17, 2017 (the “District Resolution”) and a resolution adopted by the Yolo County Board of Supervisors (the “County Board”) on September 12, 2017 (the “County Resolution” and, together, with the District Resolution, the “Resolutions”).

Description of Notes

The Notes are being issued in fully registered form, without coupons, in denominations of \$5,000 principal amount, or any integral multiple thereof. When delivered, the Notes will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). So long as Cede & Co. is the registered owner of the Notes, payment of principal of and interest on the Notes will be made by the Yolo County Chief Financial Officer (the “County Chief Financial Officer”), in its capacity as paying agent on the Notes (the “Paying Agent”), to DTC for subsequent disbursement to the beneficial owners of the Notes (the “Beneficial Owners”) by or through a DTC participant. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Notes are dated their date of delivery and mature on June 29, 2018. Principal of and interest on the Notes will be paid at maturity. Interest on the Notes is computed on the basis of a 360-day year consisting of twelve 30-day months at the rate of interest stated on the cover page hereof.

The Notes are not subject to redemption prior to their stated maturity date.

Source of Payment for the Notes

The principal amount of the Notes, together with the interest thereon, is payable from taxes, income, revenue, cash receipts, and other moneys deposited in inactive or term deposits (but excepting certain moneys encumbered for a special purpose), as provided in Government Code Section 53856, which are intended as receipts for the General Fund and which are generally available for the payment of current expenses and other obligations of the District (the “Unrestricted Revenues”) received or accrued by the District during the fiscal year commencing July 1, 2017 and ending June 30, 2018 (the “Fiscal Year”).

As security for the payment of the principal of and interest on the Notes, the District has pledged an amount equal to 50 percent of the principal amount of the Notes from the Unrestricted Revenues received by the District in the month ending January 31, 2018 and an amount equal to 50 percent of the principal amount of the Notes, plus an amount sufficient to pay interest on the Notes from the Unrestricted Revenues received by the District in the month ending April 30, 2018 (the “Pledged Revenues”). The principal of and interest on the Notes shall constitute a first lien and charge against and is payable from the first money received by the District from such Pledged Revenues, and to the extent not so paid, will be paid from any other available moneys of the District. See “SECURITY AND SOURCES OF REPAYMENT FOR THE NOTES” herein.

Continuing Disclosure

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

Professionals Involved

Government Financial Strategies inc., Sacramento, California, has acted as municipal advisor (the “Municipal Advisor”) to the District with respect to the sale and delivery of the Notes. See “MUNICIPAL ADVISOR” herein. Certain proceedings in connection with the sale and delivery of the Notes are subject to the approving legal opinion of Parker & Covert LLP as Bond Counsel. Bond Counsel will receive compensation contingent upon the sale and delivery of the Notes.

Other Information

This Official Statement may be considered current only as of its date that has been made a part of the cover page hereof, and the information contained herein is subject to change. A description of the Notes and the District together with summaries of certain provisions of the Resolutions are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive and all references made herein to the Resolutions are qualified in their entirety by reference to such document, and all references herein to the Notes are qualified in their entirety by reference to the form thereof included in the Resolutions.

Information concerning this Official Statement, the Notes, the District or any other information relating to the sale and delivery of the Notes, including the Resolutions and audited financial statements of the District, are available for public inspection and may be obtained by contacting Davis Joint Unified School District, 526 B Street, Davis, California 95616, telephone (530) 757-5300, Attention: Chief Business and Operations Officer, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

THE NOTES

Authority for Issuance

The Notes are issued pursuant to the Law and the Resolutions.

Purpose of Issue

Issuance of the Notes will provide moneys to meet the District's Fiscal Year General Fund obligations, including but not limited to current expenses, capital expenditures and the discharge of other obligations or indebtedness of the District.

Borrowing is necessary during the Fiscal Year because General Fund expenditures are expected to occur in relatively level amounts throughout the Fiscal Year while receipts are expected to follow an uneven pattern, primarily as a result of an uneven pattern of State and federal apportionments and secured property tax installment payments. Receipts from these three sources account for a significant portion of the District's total annual revenues. As a result, the General Fund cash balance is projected to be sufficiently diminished during a portion of the Fiscal Year to require the issuance of the Notes. The Notes are intended to minimize the likelihood of a cash deficit position occurring within the General Fund during the Fiscal Year.

Form and Registration

The Notes are being issued in fully registered form, without coupons, in denominations of \$5,000 principal amount, or any integral multiple thereof. Pursuant to the Resolutions, the Paying Agent will keep and maintain for and on behalf of the County and District registration books (the "Note Register") for recording the owners of the Notes (the "Registered Owners"), the transfer and exchange of the Notes, and the payment of the principal of and interest on the Notes to the Registered Owners.

The Notes are initially issued and registered in the name of Cede & Co., as nominee of DTC, and are evidenced by a single Note. Purchases of the Notes by Beneficial Owners will be made by or through a DTC participant, and ownership interests in the Notes will be recorded as entries on the books of said participants. So long as Cede & Co. is the registered owner of the Notes, payment of principal of and interest on the Notes will be made by the Paying Agent to DTC for subsequent disbursement to the Beneficial Owners by or through a DTC participant. Except in the event that use of this book-entry system is discontinued for the Notes, Beneficial Owners will not receive physical certificates representing their ownership interests in the Notes. See "APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM" attached hereto.

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

Payment of Principal and Interest

The Notes are dated their date of delivery and mature on June 29, 2018. Principal of and interest on the Notes will be paid at maturity. Interest on the Notes is computed on the basis of a 360-day year consisting of twelve 30-day months at the rate of interest stated on the cover page hereof.

The principal of and interest on the Notes is payable in lawful money of the United States of America by wire transfer on the payment date to Cede & Co., so long as Cede & Co. is the sole Registered Owner. In the event the book-entry system is no longer in use, the principal of and interest on the Notes is payable upon surrender thereof at maturity at the principal office of the County Chief Financial Officer, in its capacity as Paying Agent.

The Notes are not subject to redemption prior to their stated maturity date.

Transfer and Exchange

If the book-entry system as described herein is no longer used with respect to the Notes, the provisions in the Resolutions summarized below will govern the transfer and exchange of the Notes. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

Any Note may be transferred or exchanged, pursuant to the Resolutions, for a like aggregate principal amount of Note in authorized denominations by the person in whose name it is registered, upon surrender of such Note, or, in the case of a transfer, accompanied by delivery of a written instrument of transfer. Whenever any Note is surrendered for transfer or exchange, the County will execute and the Paying Agent will deliver a new Note of authorized denomination for a like aggregate principal amount. The Paying Agent will require the payment by the Registered Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

Investment of Operating Funds, Note Proceeds, and Repayment Funds

State law establishes that the treasurer of each county is *ex officio* treasurer of all educational agencies within its jurisdiction. Although separately accounted for, substantially all District funds are held and invested on a pooled basis with other funds held by the County Chief Financial Officer in the County's pooled investment fund (the “County Pool”). The County Pool participants primarily include school districts, special districts, and the County (for both its enterprise funds and general County operating funds).

Upon delivery of the Notes, the County Chief Financial Officer will deposit the Note proceeds in the Davis Joint Unified School District 2017-2018 Tax and Revenue Anticipation Notes Proceeds Fund (the “Proceeds Fund”). Funds pledged for repayment of the Notes will be deposited in a fund to be held on behalf of the District by the County Chief Financial Officer separate and distinct from all other County and District funds and accounts and designated the Davis Joint Unified School District 2017-2018 Tax and Revenue Anticipation Notes Repayment Fund (the “Repayment Fund”).

Subject to any additional restrictions imposed by the investment policy of the County, the County Chief Financial Officer may invest moneys in the Proceeds Fund and Repayment Fund (i) in any investments permitted by the Government Code, notwithstanding any limitations contained therein as to the maximum proportion of such funds that may be invested in any particular investment and meeting S&P Global Ratings’ criteria for investments, or any equivalent criteria of any rating agency then rating the Notes; (ii) in investment agreements, including guaranteed investment contracts, whose issuer or guarantor of issue is rated “AAA” by S&P Global Ratings, or an equivalent rating of any rating agency then rating the Notes; and (iii) in the Local Agency Investment Fund within the treasury of the State. See “YOLO COUNTY INVESTMENT POOL” and “APPENDIX D – COUNTY OF YOLO INVESTMENT POLICY” herein.

Sources and Uses of Funds

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

Sources and Uses of Funds
2017-2018 Tax and Revenue Anticipation Notes

SOURCES OF FUNDS	
Par Amount of Notes	\$
Original Issue Premium	
TOTAL SOURCES OF FUNDS	<u>\$</u>
USES OF FUNDS	
Proceeds Fund	\$
Underwriter's Discount	
TOTAL USES OF FUNDS	<u>\$</u>

SECURITY AND SOURCES OF REPAYMENT FOR THE NOTES

The principal amount of the Notes, together with the interest thereon, is payable from Unrestricted Revenues received or accrued by the District during the Fiscal Year and that are available therefor.

As security for the timely payment of the Notes and the interest thereon, the District has pledged for repayment of the Notes, (i) an amount equal to 50 percent of the aggregate principal amount of the Notes from the Unrestricted Revenues to be received by the County on behalf of the District in or attributable to the month ending January 31, 2018, and (ii) an amount equal to 50 percent of the aggregate principal amount of the Notes from the Unrestricted Revenues to be received by the County on behalf of the District in or attributable to the month ending April 30, 2018, plus an amount sufficient to pay at maturity interest on the Notes. The principal of the Notes and the interest thereon constitute a first lien and charge against, and are payable from, the first moneys received by the District from the Pledged Revenues.

In the event that there have been insufficient Unrestricted Revenues received by the District by the end of such month to permit the deposit into the Repayment Fund of the full amount of the Pledged Revenues required to be deposited with respect to such month, then the amount of any deficiency in the Repayment Fund will be satisfied and made up from any other moneys of the District lawfully available for the payment of the principal of and interest on the Notes (all as provided in Sections 53856 and 53857 of the Government Code) (the "Other Pledged Moneys"), on such date or thereafter on a daily basis, when and as such Pledged Revenues and Other Pledged Moneys are received by the District.

The following table identifies the Pledged Revenue dates and amounts.

**Pledge Amounts and Dates
Davis Joint Unified School District**

	<u>Amount of Note*</u>	<u>Pledged Revenues January 31, 2018*</u>	<u>Pledged Revenues April 30, 2018*</u>	<u>Total*</u>
2017-2018 Notes	\$	\$	\$	\$

The Resolutions require the Pledged Revenues to be transferred to the Repayment Fund held by the County Chief Financial Officer during the months such moneys are received. Moneys are to be therein held until the Notes and all the interest thereon is paid or until provision has been made for the payment of the Notes at maturity with interest to maturity. Amounts deposited into the Repayment Fund may not be used for any other purpose, although they may be invested in legal investments, as permitted by Section 53601 of the Government Code, subject to the limitations contained in the Resolutions.

On the maturity date of the Notes, the County Chief Financial Officer, in its capacity as paying agent on the Notes, will apply moneys in the Repayment Fund to pay the principal of and the interest on the Notes. Until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Repayment Fund will be applied only for the purpose for which the Repayment Fund has been created.

Actual and Projected Monthly Cash Flows

The District updates its cash flow projections during the fiscal year when it submits to the Yolo County Office of Education its first interim and second interim financial reports no later than December 15 and March 15 respectively. Copies of the District's interim reports for the current fiscal year, once completed, are available to prospective investors and/or their representatives upon request by contacting the Davis Joint Unified School District, 526 B Street, Davis, California 95616, telephone (530) 757-5300, Attention: Chief Business and Operations Officer, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California, 95814-5609, Telephone (916) 444-5100.

The District has prepared for use in this Official Statement the following cash flow statements that show actual cash receipts and disbursements for fiscal year 2016-17, and projected cash receipts and disbursements for the Fiscal Year.

[Cash flows and discussion thereof to come].

* Preliminary; subject to adjustment

Other District Funds

The California Education Code (the “Education Code”) authorizes school districts to temporarily transfer up to 75 percent of the maximum cash balance held in a specific purpose fund during the fiscal year to any other school district fund by school district board action, provided that the transferred cash is repaid to the original fund within the same fiscal year, or, if transferred within the final 120 days of the fiscal year, by the following fiscal year. However, depending upon circumstances, other State or federal law, grant or contractual restrictions may further restrict or prevent such temporary cash transfers.

The District maintains certain segregated and special purpose funds outside of the General Fund. These other District funds are not pledged to the payment of the Notes and are generally restricted in purpose. However, these other District funds could be accessed by the General Fund on a temporary basis through action of the District Board, if needed and to the extent monies are available therein.

Actual and projected cash balances in certain other District funds are set forth in the following table.

Cash Balances in Other District Funds Davis Joint Unified School District

[TO COME]

Borrowing from Other Agencies

The State Constitution and the Education Code allow school districts to borrow County-held funds of other agencies up until the last Monday in April of each fiscal year in amounts that do not exceed 85 percent of revenues accrued. The District does not anticipate that it will request the County Chief Financial Officer to make temporary transfers of funds in the County Chief Financial Officer’s custody to meet any obligations of the District during the Fiscal Year.

Bankruptcy Risks

The opinion of Bond Counsel attached hereto as “APPENDIX C” is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditors' rights. Bankruptcy of the County or the District could affect the security of the owners of Notes of the District, the ability of an owner to be paid in a timely manner, or both.

In connection with the bankruptcy petition of Orange County, California in 1994, the U. S. Bankruptcy Court originally held that the lien securing temporary notes issued by Orange County under the same statutory authority as the Notes did not attach to revenues received by Orange County after the filing of its bankruptcy petition, and therefore that the county was not required following bankruptcy to continue to set aside the revenues it had pledged under the resolution providing for the issuance of its notes. The U.S. District Court reversed the bankruptcy court and that decision was appealed. While awaiting a decision on appeal from the U. S. Court of Appeals for the Ninth Circuit, the parties settled their disputes. Accordingly, it is unclear whether the District could be required following filing of a bankruptcy petition to set aside funds as required by the Resolution.

Because the County Chief Financial Officer, acting as Paying Agent, is in possession of the taxes and other revenues that the District has agreed to set aside to pay the Notes, and may deposit and invest these funds in the County Pool, should the County go into bankruptcy, a court might hold that the owners of the Notes do not have a valid lien on the funds set aside for payment thereof. In that case, unless the owners could “trace” the funds, the owners may be merely unsecured creditors of the bankrupt County. There can be no assurance that the owners could successfully so “trace” the pledged taxes and other revenues.

If the County were to file for bankruptcy, the District may be unable to order payment of the Notes from moneys held by the County in the fund set aside for such payment. If the District were to file for bankruptcy, the County Chief Financial Officer

may be enjoined from applying set aside funds to payment of the Notes, or from setting aside any further moneys of the District for such payment.

YOLO COUNTY INVESTMENT POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been approved by the County for inclusion in this Official Statement. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Yolo, Office of the Chief Financial Officer, 625 Court Street, Room 102, Woodland, CA 95695, Telephone (530) 666-8625.

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

Funds held in the County Pool are invested by the County Chief Financial Officer in accordance with State law and the County's investment policy (the "County Investment Policy"), which is prepared by the County Chief Financial Officer and approved by the County Board. A copy of the County Investment Policy is attached hereto as "APPENDIX D." The County Investment Policy sets forth the County Chief Financial Officer's investment objectives as, in order of priority, safety of principal, liquidity and return on investment. In addition, the County Investment Policy describes the instruments eligible for inclusion in the County Pool and the limitations applicable to each type. A County Treasury Oversight Committee (which includes, among others, a representative of the Yolo County School Superintendent and a representative of the area school districts) monitors the performance of the County Pool quarterly. The County Chief Financial Officer neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

A summary description of the composition of the County Pool from the quarterly investment report as of March 31, 2017 is provided in the following table.

**Yolo County Pooled Investment Fund
As of March 31, 2017**

<u>Investment</u>	<u>Market Value</u>	<u>Percent of Portfolio</u>
U.S. Treasuries	\$4,904,759	1.0%
Federal Agencies / GSE	74,943,255	18.0
Federal Agencies / Collateralized Mortgage Obligations	20,783,142	5.0
Supranationals	15,486,722	4.0
Commercial Paper	25,210,557	6.0
Negotiable Certificates of Deposit	50,116,886	12.0
Medium-Term Corporate Notes	66,688,779	16.0
Asset-Backed Securities	18,265,857	4.0
Local Agency Investment Fund (LAIF)	66,702,551	18.0
California Asset Management Program (CAMP)	73,318,130	15.0
Total	\$416,318,639	100.0%

Totals may not foot due to rounding.

Source: Yolo County Department of Financial Services.

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

THE DISTRICT

General Information

The District, a unified school district established in 1962, is a political subdivision of the State. Encompassing approximately 130 square miles, the District serves a population of approximately 77,000 people residing in the southern portion of the County and a small portion of northeastern Solano County. The District is located 13 miles west of Sacramento and 72 miles northeast of San Francisco and is traversed east-west by Interstate 80, the main route between San Francisco and Sacramento, and north-south via State Highway 113.

The District provides elementary and secondary education to approximately 8,000 students in transitional kindergarten through twelfth grade, as well as additional students in preschool programs and adult education. The District operates nine elementary schools, one serving kindergarten through third grade and eight serving kindergarten through sixth grade; three junior high schools serving seventh through ninth grade; one traditional senior high school serving tenth through twelfth grade; a charter school serving students in seventh through twelfth grade; an independent study school and an alternative continuation high school; children's center; and adult school, all of which are located in the County. The District is governed by a five-member District Board.

The District Board of Education and Key Administrative Personnel

The District Board governs all activities related to public education within the jurisdiction of the District. The District Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations and is accountable for all fiscal matters relating to the District. The District Board consists of five 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 two and three positions available. A president of the District Board is elected by members each year.

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

**District Board of Education
Davis Joint Unified School District**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Barbara Archer	President	December 2018
Tom Adams	Vice President/Clerk	December 2018
Alan Fernandes	Member	December 2020
Bob Poppenga	Member	December 2020
Madhavi Sunder	Member	December 2018

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

Enrollment

Student enrollment determines to a large extent the amount of funding a State public school district receives for program, facilities and staff needs. Average daily attendance ("ADA") is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs. The ADA as of the last day of the last full attendance month concluding prior to April 15 ("P-2 ADA") is used by the State as the basis for State apportionments.

Set forth in the following table is the historical and projected ADA for the District.

**Average Daily Attendance
Davis Joint Unified School District**

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17²</u>	<u>2017-18³</u>
P-2 ADA ¹	7,656	7,698	7,654	7,669	7,670

¹Charter school ADA not included.

²Unaudited.

³Budgeted.

Charter Schools

There is one charter school operating within the District: Da Vinci Academy, serving grades seven through twelve at two locations, with fiscal year 2016-17 enrollment of 595 students. Da Vinci Academy is dependent on the District for funding, and its financial activities are included 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 reasonably equivalent to those provided to regular district students for charter schools having a projected average daily attendance of at least 80 or more students from that district.

Parcel Tax

Historically, voters within the District have approved various parcel tax measures to support educational programs and services. Most recently, in November 2016, voters within the District approved a special parcel tax (“Measure H”), replacing two expiring parcel taxes, to fund essential school programs including core subjects and elective classes, teacher recruitment, limiting class sizes and supporting student health and safety. The measure, effective July 1, 2017 and expiring June 30, 2026, authorizes the District to levy an annual special parcel tax in the amount of \$620 per year on each parcel of taxable real property in the District for a period of eight years. The parcel tax rate may be adjusted annually for inflation, starting as of tax year 2018-19. The parcel tax is not pledged to support any bond or other form of long-term debt.

Revenues from the parcel tax are estimated to be \$9,578,866 in fiscal year 2016-17 and are projected to be \$9,600,000 in fiscal year 2017-18.

Employee Relations

State law provides that employees of public school districts of the State are to be divided into appropriate bargaining units which then may be represented by an exclusive bargaining agent. The District has two recognized bargaining units representing its non-management employees. The Davis Teachers Association (“DTA”) is the exclusive bargaining unit for the non-management, certificated personnel of the District. The California School Employees Association, Chapter #572 (“CSEA #572”) is the exclusive bargaining unit for the District’s classified, non-management classified employees.

Set forth in the following table are the District’s bargaining units, number of full-time equivalents (“FTEs”) budgeted for fiscal year 2017-18 and contract status.

**Bargaining Units, Number of Employees and Contract Status
Davis Joint Unified School District**

<u>Bargaining Unit</u>	<u>Full-Time Equivalents</u>	<u>Contract Status</u>
DTA	486	In negotiations for fiscal year 2017-18
CSEA #572	355	In negotiations for fiscal year 2017-18

The District has an additional 53 FTEs not represented by a bargaining unit budgeted for fiscal year 2017-18.

Pension Plans

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

The District accounts for its pension costs and obligations pursuant to *Governmental Accounting Standards Board* (“GASB”) *Statement No. 67, Financial Reporting for Pension Plans* (“GASB 67”) and *Statement No. 68, Accounting and Financial Reporting for Pensions* (“GASB 68”) which replaced GASB Statements Nos. 25 and 27, respectively. GASB 68 requires an employer that provides a defined benefit pension, such as the District, to recognize and report its long-term obligation for pension benefits as a liability as it is earned by employees. The District implemented the new reporting standards as reflected in the District’s financial statements for fiscal year 2014-15. See “APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDED JUNE 30, 2016” attached hereto.

STRS—Description and Contributions. STRS operates under the Education Code sections commonly known as the State Teachers’ Retirement Law. Membership is mandatory for all certificated employees of State public schools meeting the eligibility requirements. STRS provides retirement, disability and death benefits based on an employee’s years of service, age and final compensation. Employees vest after five years of service and may receive early retirement benefits as early as age 50 or normal retirement either at age 60 or 62 depending on their hire date. Except as required for employees hired after January 1, 2013, STRS employee contribution rates are established by the State Legislature. The fiscal year 2016-17 contribution requirement for active plan members with an enrollment date prior to January 1, 2013 is 10.25 percent of salary. For active plan members with an enrollment date on or after January 1, 2013, the employee contribution rate is at least 50 percent of the total annual normal cost of their pension benefit each year as determined by an actuary (9.205 percent in fiscal year 206-17). Because STRS contribution rates are established by statute, unlike typical defined benefit programs, the District's contribution rate does not vary annually to make up funding shortfalls or assess credits based on actuarial determinations.

State Assembly Bill 1469, signed into law as part of the fiscal year 2014-15 State budget (the “2014-15 State Budget”), established a plan to eliminate the unfunded STRS liability over a period of approximately 30 years through a combination of State funding and increased school district and employee payments. Employee contributions may increase to 10.25 percent of pay by fiscal year 2017-18, employer contributions increase to 19.1 percent of eligible pay by fiscal year 2020-21, and State contributions increase by 4.311 percent by fiscal year 2016-17.

The District’s actual STRS contributions for fiscal years 2011-12 through 2015-16, estimated contributions for fiscal year 2016-17 and budgeted contributions for fiscal year 2017-18 are set forth in the following table.

**STRS Employer Contributions
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contributions¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2011-12	8.25%	\$2,937,699	\$90,439,524	3.25%
2012-13	8.25	2,846,513	82,524,222	3.45
2013-14	8.25	3,074,500	88,456,605	3.48
2014-15	8.88	3,409,992	99,237,616	3.44
2015-16	10.73	4,281,476	126,553,290	3.38
2016-17 ²	12.58	7,179,195 ³	104,401,017 ³	6.88
2017-18 ²	14.43	7,988,184 ⁴	96,879,939 ⁴	8.25

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

²Projected as of the fiscal year 2017-18 adopted budget.

³Includes State on-behalf payment of \$_____. Excluding the State on-behalf payment would reduce the District contribution as percentage of total governmental funds expenditures in fiscal year 2016-17 to ____ percent.

⁴Includes State on-behalf payment of \$_____. Excluding the State on-behalf payment would reduce the District contribution as percentage of total governmental funds expenditures in fiscal year 2017-18 to ____ percent.

PERS—Description and Contributions. All full-time classified employees of the District as well as certain part-time classified employees participate in PERS, which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries based on an employee’s years of service, age and final compensation. Employees hired before January 1, 2013 fully vest after five years of service and may receive retirement benefits at age 50; employees hired after that date fully vest at age 52. These benefit provisions and all other requirements are established by State statute and District resolution. Active plan members with an enrollment date prior to January 1, 2013 are required to contribute seven percent of their salary, while active plan members with an enrollment date on or after January 1, 2013 are required to contribute the greater of 50 percent of normal costs or six percent of their salary. The District is required to pay an actuarially determined rate.

The District's actual PERS contributions for fiscal years 2011-12 through 2015-16, estimated contributions for fiscal year 2016-17 and budgeted contributions for fiscal year 2017-18 are set forth in the following table.

**PERS Employer Contributions
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contributions¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2011-12	10.923%	\$1,342,555	\$90,439,524	1.48%
2012-13	11.417	1,392,785	82,524,222	1.69
2013-14	11.442	1,548,993	88,456,605	1.75
2014-15	11.771	1,759,547	99,237,616	1.77
2015-16	11.847	1,888,245	126,553,290	1.49
2016-17 ²	13.888	2,404,498	104,401,017	2.30
2017-18 ²	15.531	2,600,459	96,879,939	2.68

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

²Projected as of the fiscal year 2017-18 adopted budget.

Unfunded Liabilities and Pension Expense Reporting. Both STRS and PERS have substantial statewide, unfunded liabilities. The amount of these liabilities will vary depending on actuarial assumptions, returns on investment, salary scales and participant contributions. The actuarial funding method used in the STRS Actuarial Valuation as of June 30, 2015 is the entry age normal cost method, and assumes, among other things, a 7.5 percent investment rate of return, 4.5 percent interest on member accounts, projected 3.0 percent inflation, and projected payroll growth of 3.75 percent. The actuarial valuation prepared as of June 30, 2016 uses new assumptions, including a 7.25 percent investment rate of return.

The following table shows the statewide funding progress of the STRS plan for the past six years.

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

<u>Actuarial Valuation Date as of June 30</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2011	\$143,930	\$208,405	\$64,475	69%	\$26,592	242%
2012	144,232	215,189	70,957	67	26,404	269
2013	148,614	222,281	73,667	67	26,483	278
2014	158,495	231,213	72,718	69	26,398	275
2015	165,553	241,753	76,200	69	28,640	266
2016	169,976	266,704	96,728	64	n/a	n/a

¹Dollars in millions.

Source: California State Teachers' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016; California State Teachers' Retirement System, Defined Benefit Program Actuarial Evaluation for Fiscal Year Ended June 30, 2016.

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

Valuation as of June 30, 2015 is the individual entry age normal cost method, and assumes, among other things, a 7.5 percent investment rate of return and projected 2.75 percent inflation; projected payroll growth varies by entry age and service.

The following table shows the statewide funding progress of the PERS plan for the past six years. Actuarial valuation as of June 30, 2016 is not yet available.

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

<u>Actuarial Valuation Date as of June 30</u>	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2010	\$38,435	\$55,307	\$16,872	70%	\$11,283	150%
2011	45,901	58,358	12,457	79	10,540	118
2012	44,854	59,439	14,585	76	10,242	142
2013	49,482	61,487	12,005	81	10,424	115
2014	56,838	65,600	8,761	87	11,294	78
2015	56,814	73,325	16,510	78	12,098	136

¹Dollars in millions.

Source: California Public Employees' Retirement System, Schools Pool Actuarial Valuation as of June 30, 2015.

For the year ended June 30, 2016, the District's combined recognized pension expense was \$9,480,742. The District's total net pension liability as of June 30, 2016 was \$85,159,000.

The District's recognized pension expenses and net pension liability as reported financial statements for fiscal years 2014-15, the first year for which the data was provided, and 2015-16 are set forth in the following tables.

**Proportionate Share of the Net Pension Liability—STRS
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>Proportion of Statewide Liability</u>	<u>Proportionate Share of Statewide Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as Percentage of Total Pension Liability</u>
2014-15	0.084%	\$48,887,000	\$37,261,000	131.20%	76.52%
2015-16	0.083	55,700,000	38,401,000	145.05	74.02

**Proportionate Share of the Net Pension Liability—PERS
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>Proportion of Statewide Liability</u>	<u>Proportionate Share of Statewide Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as Percentage of Total Pension Liability</u>
2014-15	0.129%	\$14,657,000	\$13,553,000	108.15%	83.38%
2015-16	0.135	19,902,000	14,948,000	133.14	74.02

The District is unable to predict future amount of State pension liabilities and amount of required District contributions. Pension plan, annual contribution requirements and liabilities are more fully described in "APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDED JUNE 30, 2016" attached hereto.

Other Postemployment Benefits (OPEB)

In addition to the pension benefits described above, the District provides postemployment health care benefits (known as “other postemployment benefits,” or “OPEB”), in accordance with District employment contracts, to retirees meeting certain eligibility requirements.

Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions (“GASB 45”) requires public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits, in order to quantify a government agency’s current liability for future benefit payments. GASB 45 is directed at quantifying and disclosing OPEB obligations, and does not impose any requirement on public agencies to fund such obligations.

An actuarial study identifying the District’s OPEB liability was completed as of June 30, 2015, in accordance with GASB 45. Based on the study, the District’s actuarial accrued liability (the “AAL”), which can also be considered to be the present value of all benefits earned to date assuming that an employee accrues retiree healthcare benefits ratably over his career, was \$_____. The AAL is an actuarial estimate that depends on a variety of assumptions about future events, such as health care costs and beneficiary mortality. The remaining unamortized balance of the initial unfunded actuarial accrued liability (“UAAL”) was \$_____, leaving a residual UAAL of \$_____.

Every year, active employees earn additional future benefits, an amount known as the “normal cost,” which is added to the AAL. The annual required contribution (“ARC”) is the amount required if the District were to fund each year’s normal cost plus both the initial and residual UAAL, assuming the UAAL will be fully funded over a ____-year period. If the amount budgeted and funded in any year is less than the ARC, the difference reflects the amount by which the UAAL is growing. The actuarial study calculated the ARC to be \$_____ as of _____.

The District funds its OPEB liability on a “pay-as-you go” basis. The District paid \$324,702 in OPEB in fiscal year 2015-16, estimates paying \$325,000 in OPEB in fiscal year 2016-17, and has budgeted payment of \$325,000 in OPEB in fiscal year 2017-18. See “APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDED JUNE 30, 2016” for additional information regarding the District’s OPEB.

DISTRICT FINANCIAL INFORMATION

Accounting Practices

The District accounts for its financial transactions in accordance with the policies and procedures of the State Department of Education’s *California School Accounting Manual*, which, pursuant to Education Code Section 41010, is to be followed by all school districts in the State. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by 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 General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See “NOTE 1” in “APPENDIX A” attached hereto for a further discussion of applicable accounting policies.

The District’s independent auditor for the year ended June 30, 2016 is Crowe Horwath LLP, Sacramento, California (the “Auditor”). The financial statements of the District as of and for the year ended June 30, 2016, are set forth in “APPENDIX A” attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the

audited financial statements as an appendix to this Official Statement. The Auditor has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter.

Budget and Financial Reporting Process

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

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

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

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

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

The county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the school district to meet its current obligations, will determine if the budget is consistent with a financial plan that will enable the school district to meet its multi-year financial commitments, and will determine if the budget ensures the fiscal solvency and accountability for the goals outlined in the LCAP. On or before September 15, the county superintendent will approve or disapprove the adopted budget for each school district within its jurisdiction based on these standards. The school district board must be notified by September 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than September 20. Any recommendations made by the county superintendent must be made available by the school district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than October 22, the county superintendent must notify the State Superintendent of all school districts whose budget may be disapproved, and no later than November 8, the county superintendent must notify the State Superintendent of all school district budgets that have been disapproved or budget committees waived.

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

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

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

The filing status of the District's interim reports for the past five years appears in the following table.

**Certifications of Interim Financial Reports
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>First Interim</u>	<u>Second Interim</u>
2012-13	Positive	Positive
2013-14	Positive	Positive
2014-15	Positive	Positive
2015-16	Positive	Positive
2016-17	Positive	Positive

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, 2016, have been included in the appendix to this Official Statement. See "APPENDIX A" attached hereto. Audited financial statements and other financial reports for all prior fiscal years are on file with the District and available to prospective investors and or their representatives upon request from the Davis Joint Unified School District, 526 B Street, Davis, California 95616, telephone (530) 757-5300, Attention: Chief Business and Operations Officer, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California, 95814-5609, Telephone (916) 444-5100.

The following table sets forth the District's audited General Fund balance sheet data for fiscal years 2011-12 through 2015-16.

**General Fund Balance Sheet
Davis Joint Unified School District**

	2011-12 <u>Audited</u>	2012-13 <u>Audited</u>	2013-14 <u>Audited</u>	2014-15 <u>Audited</u>	2015-16 <u>Audited</u>
ASSETS					
Cash and Investments	\$3,620,849	\$9,784,580	\$12,774,657	\$12,286,402	\$15,305,752
Accounts Receivable	14,022,877	9,789,851	6,298,630	2,811,948	2,851,696
Due from Other Funds	850,644	35,089	535,343	2,308,410	125,467
Prepaid Expenditures	<u>47,099</u>	<u>0</u>	<u>41,501</u>	<u>2,796</u>	<u>0</u>
TOTAL ASSETS	\$18,541,469	\$19,609,520	\$19,650,131	\$17,409,556	\$18,282,915
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$6,296,973	\$7,266,783	\$9,607,599	\$9,197,236	\$6,851,614
Due to Other Funds	392,458	441,007	44,216	469,106	170,122
Unearned Revenue	<u>155,289</u>	<u>26,078</u>	<u>17,600</u>	<u>0</u>	<u>3,760</u>
TOTAL LIABILITIES	\$6,844,720	\$7,733,868	\$9,669,415	\$9,666,342	\$7,025,496
FUND BALANCES					
Nonspendable	\$94,099	\$47,500	\$89,001	\$50,296	\$47,500
Restricted	1,250,976	1,328,616	2,126,352	966,365	2,060,942
Assigned	8,221,383	8,422,168	5,070,817	4,361,176	2,510,861
Unassigned	<u>2,130,291</u>	<u>2,077,368</u>	<u>2,694,546</u>	<u>2,365,377</u>	<u>6,638,116</u>
TOTAL FUND BALANCES	\$11,696,749	\$11,875,652	\$9,980,716	\$7,743,214	\$11,257,419
TOTAL LIABILITIES AND FUND BALANCES	\$18,541,469	\$19,609,520	\$19,650,131	\$17,409,556	\$18,282,915

The following table sets forth the District's audited General Fund activity for fiscal years 2012-13 through 2015-16, estimated activity for fiscal year 2016-17 and budgeted activity for fiscal year 2017-18.

**Historical General Fund Activity
Davis Joint Unified School District**

	<u>2012-13</u> <u>Audited</u>	<u>2013-14</u> <u>Audited</u>	<u>2014-15</u> <u>Audited</u>	<u>2015-16</u> <u>Audited</u>	<u>2016-17</u> <u>Estimated</u>	<u>2017-18</u> <u>Budgeted</u>
BEGINNING BALANCE	\$11,696,749	\$11,875,652	\$9,980,716	\$7,743,214	\$11,257,419	\$9,199,079
REVENUES						
Revenue Limit/LCFF	\$41,146,951	\$48,757,875	\$53,563,456	\$59,296,059	\$62,201,612	\$63,688,472
Federal Revenue	2,887,161	2,683,237	2,726,571	2,483,727	2,591,296	2,459,372
Other State Revenues	8,384,798	3,891,886	4,579,427	9,697,530	6,801,367	4,227,395
Other Local Revenues	<u>16,745,982</u>	<u>14,798,472</u>	<u>15,738,937</u>	<u>15,013,335</u>	<u>14,903,740</u>	<u>13,840,578</u>
TOTAL REVENUES	\$69,164,892	\$70,131,470	\$76,608,391	\$86,490,651	\$86,498,015	\$84,215,817
EXPENDITURES						
Certificated Salaries	\$33,269,851	\$35,490,839	\$37,415,149	\$38,889,383	\$40,422,231	\$40,798,547
Classified Salaries	12,500,337	13,902,326	15,086,602	16,023,604	16,684,813	16,729,943
Employee Benefits	11,132,259	11,832,829	13,081,062	14,959,777	15,923,499	16,878,812
Books and Supplies	3,232,304	3,505,085	4,394,014	4,322,091	5,605,711	2,876,793
Services/Other Operating Exp	8,317,626	7,727,937	8,089,795	8,199,318	8,937,537	7,256,629
Capital Outlay	181,843	121,075	422,253	536,417	550,290	6,248
Other Outgo	134,946	357,034	237,676	193,142	300,313	442,027
Debt Service	<u>139,579</u>	<u>136,337</u>	<u>136,337</u>	<u>108,941</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	\$68,908,745	\$73,073,462	\$78,862,888	\$83,232,673	\$88,424,395	\$84,988,999
OTHER FINANCING SOURCES	(\$77,244)	\$1,047,056	\$16,995	\$256,227	(\$131,960)	(\$156,136)
NET INCREASE (DECREASE)	\$178,903	(\$1,894,936)	(\$2,237,502)	\$3,514,205	(\$2,058,340)	(\$929,318)
ENDING BALANCE	\$11,875,652	\$9,980,716	\$7,743,214	\$11,257,419	\$9,199,079	\$8,269,761

Revenues

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

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

In landmark legislation effective fiscal year 2013-14, the State introduced a new formula, the local control funding formula ("LCFF"), to be phased in through fiscal year 2020-21. LCFF consolidates most categorical programs in order to give school districts more control over how to spend their revenues. At full implementation of LCFF, school districts will receive a uniform base grant per student based on grade span, a supplemental grant based on an unduplicated count of the targeted disadvantaged students ("unduplicated students") in the school district, and an additional concentration grant based on the

number of unduplicated students in the school district above 55 percent, with qualifying schools receiving an additional necessary small school allowance. Approximately 26.02 percent of the District's students were unduplicated students for fiscal year 2016-17 based on P-2 ADA. The base, supplemental, and concentration grant amounts per student were set in fiscal year 2012-13 and are subject to cost-of-living adjustments thereafter. School districts that would otherwise receive less funding at full implementation of LCFF than they did under the revenue-limit system are also guaranteed an additional Economic Recovery Target ("ERT") grant to restore funding to at or above their pre-recession funding, adjusted for inflation. The ERT add-on is paid incrementally over the LCFF implementation period. In fiscal year 2016-17, the District's LCFF funding at full implementation was calculated to be \$64,591,938 as of the second period report, comprised of \$60,852,596 in base grant funding, \$3,166,768 in supplemental grant funding, and \$572,574 in add-on funding.

To calculate LCFF funding during the phase-in period, school districts calculate their "funding gap," the difference between LCFF funding calculated at full implementation and their "funding floor," an amount based on fiscal year 2012-13 funding levels under the revenue limit system adjusted for prior LCFF phase-in adjustments. School districts receive their funding floor plus a percentage of their funding gap as specified in the State budget. In fiscal year 2016-17, the State has budgeted funding 55 percent of the remaining funding gap. In fiscal year 2016-17, the District received \$59,305,494 as its floor entitlement and \$2,321,975 in gap funding under LCFF. See "FUNDING OF PUBLIC EDUCATION IN THE STATE" herein for more information about LCFF.

Set forth in the following table is the District's funded ADA by grade span and the percentage of unduplicated student enrollment for fiscal years 2013-14 through 2017-18.

**Funded ADA and Unduplicated Student Enrollment Percentage
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>P-2 ADA Grades TK-3¹</u>	<u>P-2 ADA Grades 4-6¹</u>	<u>P-2 ADA Grades 7-8¹</u>	<u>P-2 ADA Grades 9-12¹</u>	<u>Total P-2 ADA¹</u>	<u>Unduplicated Student Enrollment Percentage¹</u>
2013-14	2,294.79	1,857.34	1,181.39	2,345.57	7,679.09	27.33%
2014-15	2,352.46	1,852.91	1,144.24	2,346.34	7,695.95	27.08
2015-16	2,327.98	1,833.05	1,206.32	2,309.18	7,676.53	26.37
2016-17	2,333.74	1,807.48	1,199.27	2,355.48	7,695.97	26.02
2017-18 ²						

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

²Projected as of the fiscal year 2017-18 budget.

Set forth in the following table is the District's actual LCFF funding per ADA for fiscal years 2013-14 through 2017-18.

**LCFF Funding per ADA
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>Funded ADA¹</u>	<u>Average LCFF Funding per ADA²</u>	<u>Average LCFF Funding per ADA at Full Implementation</u>
2013-14	7,679.09	\$6,359.66	\$8,255.36
2014-15	7,695.95	6,950.57	8,323.04
2015-16	7,676.53	7,708.12	8,390.07
2016-17	7,695.97	8,091.24	8,392.96
2017-18 ³			

¹Funded ADA is the greater of current year P-2 ADA and prior year P-2 ADA.

²Represents average LCFF funding per ADA across grade spans.

³Projected as of the fiscal year 2017-18 budget.

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

LCFF revenues were 68.6 percent of General Fund revenues in fiscal year 2015-16, are estimated to be 71.9 percent of General Fund revenues in fiscal year 2016-17, and are budgeted to be 75.6 percent of General Fund revenues in fiscal year 2017-18.

Federal Revenues. The federal government provides funding for several District programs. These federal revenues, most of which historically have been restricted, were 2.9 percent of General Fund revenues in fiscal year 2015-16, are estimated to be 3.0 percent of General Fund revenues in fiscal year 2016-17, and are budgeted to be 2.9 percent of General Fund revenues in fiscal year 2017-18.

Other State Revenues. In addition to apportionment revenues, the State provides funding to the District for categorical programs. Many categorical programs previously classified as other State revenues were incorporated under LCFF in fiscal year 2013-14, causing a reduction in other State revenues. These other State revenues were 11.2 percent of General Fund revenues in fiscal year 2015-16, are estimated to be 7.9 percent of General Fund revenues in fiscal year 2016-17, and are budgeted to be 5.0 percent of General Fund revenues in fiscal year 2017-18. Included in other State revenues are proceeds received from the State lottery.

Other Local Revenues. Revenues from other local sources were 17.4 percent of General Fund revenues in fiscal year 2015-16, are estimated to be 17.2 percent of General Fund revenues in fiscal year 2016-17, and are budgeted to be 16.4 percent of General Fund revenues in fiscal year 2017-18. Included in other local revenues are the proceeds of a parcel tax within the District (see "THE DISTRICT—Parcel Tax" herein). Revenues from the parcel tax are estimated to be \$9,578,866 in fiscal year 2016-17 and are projected to be \$9,600,000 in fiscal year 2017-18.

Expenditures

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

At the time the District's fiscal year 2017-18 budget was prepared, the District has not completed negotiations with its certificated or classified bargaining units to finalize salary and benefit increases for fiscal year 2017-18. As a result, the District did not include certificated and classified employee salary and benefit increases in its fiscal year 2017-18 adopted budget. Each one percent increase in salary for certificated and classified staff would increase fiscal year 2017-18 expenditures by \$440,902 and \$199,942, respectively.

Employee salaries and benefits were 83.9 percent of General Fund expenditures in fiscal year 2015-16, are estimated to be 82.6 percent of General Fund expenditures in fiscal year 2016-17, and are budgeted to be 87.5 percent of General Fund expenditures in fiscal year 2017-18.

Short-Term Borrowings

The District has no short-term debt outstanding.

The District has in the past issued short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the District have been used to reduce inter-fund dependency and to provide the District with greater overall efficiency in the management of its funds. The District has 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. The District has no outstanding capital lease arrangements.

In August 2005, the District issued the Davis Joint Unified School District (Yolo County, California) 2005 Certificates of Participation (the “2005 COP”) in the aggregate principal amount of \$9,996,960. In May 2009, the District issued the Davis Joint Unified School District (Yolo and Solano Counties, California) 2009 Lease Certificates (the “2009 Lease”) in the aggregate principal amount of \$4,994,311. In August 2014, the District issued the Davis Joint Unified School District (Yolo and Solano Counties, California) 2014 Certificates of Participation (the “2014 COP”) in the aggregate principal amount of \$25,967,063.

The following table summarizes the District’s outstanding certificates of participation and lease purchases as of June 30, 2017.

**Davis Joint Unified School District
Outstanding Certificates of Participation and Lease Purchases**

<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Amount Issued</u>	<u>Outstanding as of June 30, 2017¹</u>	<u>Debt Service in Fiscal Year 2017-18</u>
2005 COP	August 1, 2018	\$9,996,960	\$6,268,400	\$5,238,500
2009 Lease	August 1, 2019	4,994,311	3,889,311	109,106
2014 COP	August 1, 2024	<u>25,967,063</u>	<u>25,967,063</u>	<u>645,400</u>
	Total	\$40,958,334	\$36,124,774	\$5,993,006

¹Includes accreted interest.

Long Term Borrowings

General Obligation Bonds–2000 Election. At an election held on May 23, 2000 (the “2000 Election”), more than two-thirds of voters in the District approved the issuance of not-to-exceed \$26.0 million in aggregate principal amount of general obligation bonds (Measure “K”). In August 2000, the District issued the Davis Joint Unified School District (Yolo County, California) General Obligation Bonds, Election of 2000, Series 2000 (the “2000 Bonds”) in the aggregate principal amount of \$13,000,000. In July 2002, the District issued the Davis Joint Unified School District (Yolo County, California) General Obligation Bonds, Election of 2000, Series 2002 (the “2002 Bonds”) in the aggregate principal amount of \$13,000,000. The District has no remaining authorization under the 2000 Election.

In May 2010, the District issued the Davis Joint Unified School District (Yolo County, California) 2010 General Obligation Refunding Bonds (the “2010 Refunding Bonds”) in the aggregate principal amount of \$9,600,000 to refund the outstanding maturities of the 2000 Bonds. In August 2011, the District issued the Davis Joint Unified School District (Yolo County,

California) 2011 General Obligation Refunding Bonds (the “2011 Refunding Bonds”) in the aggregate principal amount of \$9,475,000 to refund the outstanding maturities of the 2002 Bonds.

The following table summarizes the District’s outstanding general obligation bonded indebtedness as of March 1, 2017.

**Outstanding General Obligation Bonds
Davis Joint Unified School District**

<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Amount Issued</u>	<u>Outstanding Principal as of June 30, 2017</u>	<u>Debt Service in Fiscal Year 2017-18</u>
2010 Refunding Bonds	August 1, 2025	\$9,600,000	\$6,470,000	\$848,550
2011 Refunding Bonds	August 1, 2027	<u>9,475,000</u>	<u>7,140,000</u>	<u>792,694</u>
	Total	\$19,075,000	\$13,610,000	\$1,641,244

¹Includes accreted value.

Community Facilities District No. 1—1989 Election. Pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Government Code Section 53311 *et seq.*), the District Board adopted a resolution to establish the Davis Joint Unified School District Community Facilities District No. 1 (“CFD No. 1”) for the purpose of financing certain public facilities in and for the District and CFD No. 1. At an election held on November 7, 1989 (the “1989 Election”), more than two-thirds of qualified landowners voting within the boundaries of CFD No. 1 approved the issuance of not-to-exceed \$33.0 million aggregate principal amount of special tax bonds for school purposes. Nine bond series have been issued pursuant to this authorization, including various refunding series. The remaining outstanding bonds of CFD No. 1 were repaid in their entirety in February 2017.

Community Facilities District No. 2—1990 Election. Pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Government Code Section 53311 *et seq.*), the District Board adopted a resolution to establish the Davis Joint Unified School District Community Facilities District No. 2 (“CFD No. 2”) for the purpose of financing certain public facilities in and for the District and CFD No. 2. At an election held on May 24, 1990 (the “1990 Election”), more than two-thirds of qualified landowners voting within the boundaries of CFD No. 2 approved the issuance of not-to-exceed \$70.0 million aggregate principal amount of special tax bonds for school purposes. To date, seven bond series have been issued pursuant to this authorization, including various refunding series.

The following table summarizes the CFD No. 2 outstanding bonded indebtedness as of April 5, 2017.

**Outstanding Special Tax Bonds
Davis Joint Unified School District Community Facilities District No. 2**

<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Amount Issued</u>	<u>Outstanding Principal as of June 30, 2017</u>	<u>Debt Service in Fiscal Year 2017-18</u>
2012 Refunding Bonds	August 15, 2028	\$17,450,000	\$12,510,000	\$1,601,895
2015 Refunding Bonds	August 15, 2029	<u>7,385,000</u>	<u>6,880,000</u>	<u>659,100</u>
	Total	\$24,835,000	\$19,390,000	\$2,260,995

¹Includes accreted value.

The District has never defaulted on any of its long-term bonded indebtedness. All long term bonded indebtedness of the District as of June 30, 2016, is set forth in “APPENDIX A” attached hereto.

TAXATION AND APPROPRIATION

Introduction

The principal amount of the Notes, together with the interest thereon, is payable from Unrestricted Revenues received or accrued by the District during the Fiscal Year and that are available therefor. Property taxes represent approximately __._% of the District's budgeted General Fund Unrestricted Revenues in the Fiscal Year.

Various County officers are responsible for the performance of each function in the property taxation system. Property tax revenues result from the application of the appropriate tax rate to the total net assessed value of taxable property in the District. All property, including real, personal and intangible property, is taxable, unless granted an exemption by the State Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The California Legislature (the "State Legislature") may create additional exemptions for personal property, but not for real property. Taxes on property in a school district with boundaries extending into more than one county are administered separately by each county in which the property is located (the District is located solely in the County).

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

Assessed Valuation of Property

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

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals of assessed valuation by taxpayers or temporary reductions in assessed valuation of property, as allowed under the State Constitution, within the District located in either Yolo County or Solano County. Any refund of paid taxes triggered by a successful assessment appeal will be debited against all taxing agencies receiving tax revenues, including the District.

The secured roll also includes certain "utility" property, entered on the utility roll, located in a county but assessed by the State Board of Equalization (the "SBE") rather than the county assessor. Such property includes property owned or used by State-regulated transportation and communications utilities such as railways, telephone and telegraph companies, companies transmitting or selling gas or electricity, and pipelines, flumes, canals and aqueducts lying within two or more counties. Property assessed by the SBE is not subject to the provisions of Proposition 13 (1978) and is annually reappraised at its market value as of January 1 and then allocated by formula among all the taxing jurisdictions in each county, including the District. The growth or decline in the assessed valuation of utility property is shared by all jurisdictions in the county. The District can make no predictions regarding the impact of the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies on the amount of tax revenue collected. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among taxing jurisdictions in the county; the transfer of property located and taxed in the District to a State-assessed utility will, in general, reduce the assessed value in the District, as the value is shared among the other jurisdictions in the county.

Shown in the following table are ten years of the District's historical assessed valuation. Total secured assessed value includes net local secured, secured homeowner exemption, and utility value. Total unsecured assessed value includes net local unsecured and unsecured homeowner exemption value.

**Historical Total Secured and Unsecured Assessed Valuation
Davis Joint Unified School District**

<u>Fiscal Year</u>	<u>Total Secured Assessed Value</u>	<u>Total Unsecured Assessed Value</u>	<u>Total Assessed Value</u>	<u>Rate of Change</u>
2007-08	\$6,327,584,034	\$182,099,985	\$6,509,684,019	--
2008-09	6,531,901,621	198,828,261	6,730,729,882	3.40%
2009-10	6,726,509,648	195,077,855	6,921,587,503	2.84
2010-11	6,748,232,051	197,460,354	6,945,692,405	0.35
2011-12	6,764,853,034	192,911,390	6,957,764,424	0.17
2012-13	6,904,271,933	195,363,792	7,099,635,725	2.04
2013-14	7,276,496,981	196,276,040	7,472,773,021	5.26
2014-15	7,600,956,314	204,049,845	7,805,006,159	4.45
2015-16	8,043,687,564	201,051,116	8,244,738,680	5.63
2016-17	8,493,442,812	206,375,712	8,699,818,524	5.52

Source: Yolo County Chief Financial Officer and Solano County Treasurer.

Largest Taxpayers

The more property (by assessed value) that is owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and their ability or willingness to pay property taxes. In fiscal year 2016-17, no single taxpayer owned more than 0.68 percent of the total secured taxable property in the District. However, each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the list of largest taxpayers identified in the following table.

The 20 taxpayers in the District with the greatest combined secured assessed valuation of taxable property on the fiscal year 2016-17 tax roll own property that comprises 7.35 percent of the local assessed valuation of secured property in the District. These taxpayers, ranked by aggregate assessed value of taxable property as shown on the fiscal year 2016-17 secured tax roll and the amount of each owner's assessed valuation for all taxing jurisdictions within the District are shown in the following table.

**Largest Taxpayers
Davis Joint Unified School District**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2016-17 Assessed Valuation</u>	<u>Percent of Total¹</u>
1. Mori Seiki Davis Land Holding Inc.	Office/Manufacturing	\$57,765,576	0.68%
2. Tanglewood Apts LLC	Apartments	54,818,881	0.65
3. CP IV University Village LLC	Apartments	41,781,172	0.49
4. Marketplace Center Inc.	Shopping Center	36,805,966	0.43
5. Green Leaf College Square LLC	Apartments	35,065,520	0.41
6. Centro Watt Property Owner I	Shopping Center	34,500,000	0.41
7. Oakshade Regency LLC	Shopping Center	34,157,515	0.40
8. Tilden Sharps LLC	Apartment	33,095,625	0.39
9. VTR Covell LP	Assisted Living Facility	32,056,157	0.38
10. Target Corporation	Commercial	28,422,090	0.33
11. Buzz Oates LLC	Office Building	26,639,981	0.31
12. Fine Arts LP	Apartments	25,890,638	0.30
13. Carlton Plaza of Davis LP	Assisted Living Facility	25,283,639	0.30
14. Shea Homes LP	Residential Development	24,801,904	0.29
15. Olive Drive Partners	Apartments	24,004,012	0.28
16. New Home Co. Northern CA LLC	Residential Development	22,464,121	0.26
17. TNHC-HW Cannery LLC	Undeveloped	22,336,789	0.26
18. Angstenberger Trust	Apartments	21,670,387	0.26
19. DDD Partnership	Residential and Commercial Properties	21,520,321	0.25
20. WGA Sycamore Lane LP	Apartments	21,284,996	0.25
Total		\$624,365,290	7.35%

¹Fiscal year 2016-17 local secured assessed valuation: \$8,495,110,287.
Source: California Municipal Statistics, Inc.

Alternative Method of Tax Apportionment

The Board of Supervisors of Yolo County and the Board of Supervisors of Solano County have each approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) to the California Revenue and Taxation Code (the “Revenue and Taxation Code”) Section 4701 *et seq.* The Teeter Plan guarantees distribution of all *ad valorem* taxes levied to the taxing entities within a county, with the county retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

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

The Teeter Plan is to remain in effect in each county unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the county (which commences on July 1), the county board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in that county. The county board of supervisors may also, after holding a public hearing on the matter, discontinue the procedures with respect to any tax levying agency or assessment levying agency in the county if the rate of secured tax delinquency in that agency in any year exceeds 3 percent of the total of all taxes and assessments levied on the secured rolls in that agency. If the Teeter Plan were discontinued in either Yolo County or Solano County, only those secured property taxes actually collected in that county would be allocated to political subdivisions, including the District. Further, the District’s tax revenues would be subject to taxpayer delinquencies, and the District would realize the benefit of interest and penalties collected from delinquent taxpayers,

pursuant to law. As long as the Teeter Plan remains in effect in both Yolo County and Solano County, the District will be credited with the full amount of the tax levy no matter the delinquency rate within the District.

Tax Collections and Delinquencies

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

Property taxes on the regular secured roll are due in two equal installments. The first installment is due on November 1 and becomes delinquent at 5:00 p.m. on December 10, after which time a delinquent penalty of ten percent of the amount of the first installment is added. The second installment is due on February 1 and becomes delinquent at 5:00 p.m. on April 10, after which time a delinquent penalty of ten percent of the amount of the second installment, plus a \$10 cost, are added. Taxes remaining unpaid by 5:00 p.m. on June 30 are deemed to be in default and are subject to a \$15 redemption fee and accruing penalties of 1.5 percent per month. After five years, the County generally has the power to sell tax-defaulted property that is not redeemed; proceeds from such sale are applied to the payment of the delinquent taxes.

Annual bills for property taxes on the unsecured roll are mailed during July; taxes on the unsecured roll are due on August 31. Taxes unpaid by the delinquency date will have a lien recorded against the property owner.

As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of the tax levy no matter the delinquency rate within the District. See “— Alternative Method of Tax Apportionment” herein.

CITY AND COUNTY ECONOMIC PROFILE

The information in this section concerning the economy of the City and County is provided as supplementary information only and is not intended to be an indication of security for the Notes. The Notes are a general obligation of the District, payable solely from taxes, income, revenues, cash receipts and other moneys received by the District during or attributable to the Fiscal Year and legally available for the payment of current expenses and other obligations of the District.

General Information

The County, one of 58 counties in the State, was incorporated in 1850 and is located in the northern central region of the State approximately 20 miles west of the City of Sacramento, the State’s capital, and approximately 60 miles northeast of the City of San Francisco. Encompassing approximately 1,021 square miles in the Central Valley and the Sacramento River Delta, the County has four incorporated cities; agriculture is the County's primary industry. The eastern two-thirds of the County consist of nearly level alluvial fans, flat plains, and basins, while the western third is largely composed of rolling terraces and steep uplands used for dry-farmed grain and range. The elevation ranges from slightly below sea level near the Sacramento River around Clarksburg to 3,000 feet along the ridge of the western mountains. The County’s proximity to Sacramento International Airport as well as two major interstates places it within a major transportation hub of the State. Based on data compiled by CoreLogic, the median sale price of a single-family home in the County was \$425,000 in May 2017, an increase of approximately 7.6 percent from \$395,000 in May 2016.

The City, founded in 1868, encompasses approximately ten square miles located in the southern portion of the County, bisected by Interstate 80. The City is home to the University of California, Davis. Based on data compiled by CoreLogic, the median sale price of a single-family home in the City was \$650,000 in May 2017, an increase of approximately 13.0 percent from \$575,000 in May 2016.

Population

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

Historical Population City of Davis, County of Yolo, State of California

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
City of Davis	65,834	66,848	67,139	67,731	68,740
County of Yolo	207,329	208,957	211,126	215,522	218,896
State of California	38,238,492	38,572,211	38,915,880	38,189,035	39,523,613

Source: California Department of Finance.

Personal Income

Total personal income includes income from all sources including net earnings, dividends, interest and rent, and personal current transfer receipts received by residents in the region. *Per capita* personal income ("PCPI") was \$49,063 in the County in 2015, an increase of 3.7 percent from 2014 levels, compared to an increase of 5.4 percent Statewide and 3.7 percent nationally. The following table shows PCPI for the County as well as for the State for the past five years for which data is available.

***Per Capita Personal Income* County of Yolo and State of California**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
County of Yolo	\$42,738	\$43,538	\$44,556	\$46,641	\$49,063
State of California	45,820	48,312	48,471	50,988	53,741

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

Labor Force and Employment

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

Historical Unemployment City of Davis

	<u>Annual 2013</u>	<u>Annual 2014</u>	<u>Annual 2015</u>	<u>Annual 2016</u>	<u>June 2017¹</u>
Total Labor Force	33,600	33,900	34,800	35,400	35,400
Number of Employed	31,300	32,000	33,100	33,800	34,000
Number of Unemployed	2,300	2,000	1,700	1,600	1,400
Unemployment Rate	7.0%	5.8%	4.9%	4.4%	3.9%

¹Preliminary.

Source: State Employment Development Department.

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

**Historical Unemployment
County of Yolo**

	Annual <u>2013</u>	Annual <u>2014</u>	Annual <u>2015</u>	Annual <u>2016</u>	June <u>2017</u> ¹
Total Labor Force	98,100	101,000	103,900	106,300	106,200
Number of Employed	88,900	93,200	97,200	100,100	100,800
Number of Unemployed	9,200	7,800	6,700	6,100	5,400
Unemployment Rate	9.4%	7.7%	6.4%	5.8%	5.1%

¹Preliminary.

Source: State Employment Development Department.

The following table shows the County's labor patterns by type of industry from 2011 through 2015 by annual average, not seasonally adjusted. Data for calendar year 2016 is not yet available.

**Historical Employment by Industry
County of Yolo**

<u>Title</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total, All Industries	95,400	96,900	98,900	101,700	105,600
Total Farm	5,100	5,300	5,400	5,700	5,900
Total Nonfarm	90,300	91,600	93,500	96,000	99,600
Goods Producing	8,200	8,200	8,700	9,300	10,100
Mining, Logging	200	100	200	200	200
Construction	3,300	3,100	3,000	3,000	3,500
Manufacturing	4,700	5,000	5,500	6,200	6,400
Service Providing	82,200	83,400	84,900	86,700	89,600
Trade, Transportation & Utilities	18,400	18,200	18,800	19,200	19,600
Information	1,000	1,000	1,100	1,000	1,000
Financial Activities	2,900	2,900	2,800	2,500	2,500
Professional & Business Services	7,200	7,700	7,800	8,000	8,300
Educational & Health Services	8,400	8,600	9,000	9,300	9,700
Leisure & Hospitality	6,300	6,700	6,800	7,100	7,600
Other Services	2,000	2,100	2,200	2,300	2,300
Government	36,000	36,100	36,500	37,300	38,600
Federal Government	2,300	2,300	2,300	2,300	2,300
State Government	24,300	24,600	25,000	25,500	26,500
Local Government	9,400	9,300	9,200	9,500	9,800

Figures may not foot due to rounding.

Source: State Employment Development Department.

Major Employers

The following table provides a list of major employers, corresponding number of employees and percent of total employment in the City for fiscal year 2015-16.

Major Employers City of Davis

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total City Employment</u>
University of California, Davis	23,800	71.47%
Davis Joint Unified School District	1,073	3.22
City of Davis	385	1.16
Sutter Davis Hospital	380	1.14
Unitrans	291	0.87
PG&E	248	0.74
Safeway Stores	245	0.74
Nugget Market	243	0.73
University Retirement Community	218	0.65
Kaiser Permanente Medical Office	<u>130</u>	<u>0.39</u>
Total	27,013	81.12%

Source: City of Davis, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

The following table provides a list of major employers, corresponding number of employees and percent of total employment in the County for fiscal year 2015-16.

Major Employers County of Yolo

<u>Employer</u>	<u>Number of Employees</u>	<u>Percentage of Total County Employment</u>
University of California, Davis	9,599	9.7%
State of California (various)	2,753	2.8
U.S. Government	2,316	2.3
Cache Creek Casino Resort	2,300	2.3
County of Yolo	1,411	1.4
Woodland Joint Unified School District	1,116	1.1
Raley's Inc.	1,007	1.0
Walgreens	839	0.9
Woodland Healthcare	712	0.7
Sutter Health	<u>665</u>	<u>0.7</u>
Total	22,718	23.0%

Source: County of Yolo, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016.

Commercial Activity

Total taxable sales during calendar year 2015 in the City were reported to be \$633,471,000, a 7.5 percent increase from the total taxable sales of \$589,194,000 reported during calendar year 2014.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City for the past five years is presented in the following table. Data for calendar year 2016 is not yet available.

**Taxable Retail Sales
City of Davis**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Sales Tax Permits	1,088	1,097	1,123	1,127	n/a ¹
Taxable Sales (000's)	\$479,072	\$547,373	\$562,953	\$589,194	\$633,471

¹Beginning in 2015, the reporting criteria for the number of permits/outlets changed, making the data not comparable to prior years.

Source: State Board of Equalization.

Total taxable sales during calendar year 2015 in the County were reported to be \$3,984,801,000, a 5.4 percent increase from the total taxable sales of \$3,781,449,000 reported during calendar year 2014.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the County for the past five years is presented in the following table. Data for calendar year 2016 is not yet available.

**Taxable Retail Sales
County of Yolo**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Sales Tax Permits	3,978	4,012	4,075	4,119	n/a ¹
Taxable Sales (000's)	\$3,247,541	\$3,475,345	\$3,700,252	\$3,781,449	\$3,984,801

¹Beginning in 2015, the reporting criteria for the number of permits/outlets changed, making the data not comparable to prior years.

Source: State Board of Equalization.

Construction Activity

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

**New Residential Building Permits
County of Yolo**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Single Family Residential Units	246	305	216	334	585
Multi-Family Residential Units	<u>47</u>	<u>508</u>	<u>2</u>	<u>20</u>	<u>88</u>
Total New Building Permits	293	813	218	354	673
Total Construction Costs	\$67,405,984	\$141,312,233	\$69,863,155	\$103,677,679	\$178,271,882

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

FUNDING OF PUBLIC EDUCATION IN THE STATE

Sources of Revenue for Public Education

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

State Funding. Many school districts in the State receive the majority of their funds from the State. In fiscal year 2016-17, State funds are expected to account for approximately 60 percent of State K-12 public education funding. There are three sources of State funds for K-12 public education: the Proposition 98 minimum guarantee, comprised of a combination of State general fund revenues and local property tax revenues, representing the majority (approximately 85 percent in fiscal year 2016-17) of State funding; additional State funds for targeted programs such as facilities and remaining categorical programs such as special education, nutrition, afterschool programs, and home-to-school transportation; and State lottery funds, a portion of which may only be used for instructional purposes. The Proposition 98 guaranteed minimum amount is set forth each year in the State budget. See “—The 2016-17 State Budget” and “—The 2017-18 State Budget” herein.

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

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

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

Most public education funding from the State is provided through the LCFF, including approximately 80 percent of Proposition 98 funding for K-12 public education. As under the revenue limit, school districts continue to receive funds based on the greater of prior year or current year ADA figures. Under LCFF, school districts across the State receive the same base grants for each grade span, based on ADA. In fiscal year 2017-18, the base grants are \$7,941 for kindergarten through third grade, \$7,301 for fourth through sixth grade, \$7,518 for seventh through eighth grade, and \$8,937 for ninth through twelfth grade. These figures include increases for class size reduction for kindergarten through third grade and career technical education for ninth through twelfth grade.

School districts receive a supplemental grant of 20 percent of the base grant for each student in the school district who is low-income, English-learner, or foster youth. Enrollment counts are “unduplicated,” such that students may not be counted as both

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

The implementation of LCFF began in fiscal year 2013-14, with full implementation planned by fiscal year 2020-21. Until full implementation has occurred, the difference between the actual amount districts receive in a year and the target amount they will receive as of full implementation is referred to as the "funding gap." The funding gap is determined by the difference between the "funding floor," or amount of funding a school district received the prior year, and the target amount of funding the school district will receive at full implementation. The funding floor consists of fiscal year 2012-13's deficated revenue limit divided by ADA multiplied by current year ADA, plus the sum of any categorical funding. Sufficient funding was available to fund 12 percent of the funding gap in fiscal year 2013-14, 33 percent of the gap in fiscal year 2014-15, 53 percent of the gap in fiscal year 2015-16, 55 percent of the gap in fiscal year 2016-17, and is budgeted to fund 44 percent of the gap in fiscal year 2017-18, the fifth year of implementation of LCFF, bringing LCFF to 97 percent of full implementation.

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

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

The State funds school districts in monthly installments based on calculations made in a series of three apportionments throughout the fiscal year. Each apportionment includes funding for the LCFF and for other State programs. The amount of each apportionment is based on calculations made by each school district and reviewed by its county office of education. The Advance Principal Apportionment ("Advance Apportionment"), certified by July 20, sets forth the amount the school district will receive for the year, paid in a series of installments from August through January. The First Principal Apportionment ("P-1 Apportionment"), certified by February 20, set forth a new calculation based on the school district's first period ADA determined as of December, for installments that will be paid to the school district from February through June. The Second Principal Apportionment ("P-2 Apportionment"), certified July 2, based on second period ADA determined as of April, recalculates the amount of the final installment for the fiscal year paid to the school district in July. At the close of the fourth quarter, a final annual recalculation ("Annual Apportionment") provides an updated estimate of the prior year's adjustment. In addition, under the EPA established for the deposit of revenues from the tax increase under Proposition 30 and extended under Proposition 55, school districts receive a quarterly allocation of the tax revenue received from the temporary tax increase under Proposition 30. The funds in the EPA are allocated between K-14 school districts by 89 percent and 11 percent, respectively, in quarterly allocations made in September, December, March and June each year. The amount received by a school district under EPA is a reduction to the aid the school district receives from the State applied at each principal apportionment certification. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES" herein.

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

group for each State priority, including the content standards adopted by the State Board of Education. The LCAP of each school district is overseen and approved by the county superintendent.

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

Federal Funding. In fiscal year 2016-17, federal revenues account for less than ten percent of funding for school districts in the State. Most of these funds are designated for particular purposes. There are no unfunded federal education mandates; each is conditioned on a state's voluntary decision to accept federal program funds. The primary source of federal supplemental education funding is the Elementary and Secondary Education Act ("ESEA") (1965), enacted to address inequality in education. The previous authorization of ESEA, the No Child Left Behind Act ("NCLB") (2001), expanded the federal government's role and increased testing requirements to measure improvement. Most recently reauthorized under the Every Student Succeeds Act ("ESSA") (2015), responsibility for school improvement has been shifted to the states. ESSA provides funding through six programs: Title I grants, tied to student assessment, to assist economically disadvantaged children; Title II grants for professional development; Title III grants for ancillary student services; Title IV grants for research and training; Title V grants for state departments; and Title VI grants for special education. Another significant source of federal funding for school districts is the Education for All Handicapped Children Act ("EHA") (1975), enacted to support special education and related services, reauthorized by the Individuals with Disabilities Education Act ("IDEA") (1990). The largest of the law's three sections, Part B, authorizes grants to states and local school districts to offset special education costs. As of fiscal year 2014, IDEA federal funding covered 16 percent of the estimated excess cost of educating students with disabilities; the shortfall is assumed by states and local school districts.

Local Property Tax Revenue. In fiscal year 2016-17, local property taxes are expected to account for approximately 25 percent of K-12 public education funding within the State. Property taxes are constitutionally limited to one percent of the property's value, except to repay voter-approved debt.

Other Local Funds. In fiscal year 2016-17, miscellaneous local sources are expected to account for approximately five percent of K-12 public education funding within the State. There are several types of revenue a school district may receive from other local sources, including developer fees, parcel taxes, property lease revenues, and private donations. A school district may levy developer fees on new residential or commercial development within the school district's boundaries to finance the construction or renovation of school facilities. A school district may, with two-thirds approval from local voters, levy special taxes on parcels to fund specific programs within the school district. A school district may lease or sell its unused sites or facilities as another source of revenue. A school district may also seek contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses.

The State Budget Process

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

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

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

The 2016-17 State Budget

On June 27, 2016, the Governor signed the 2016 Budget Act and associated trailer bills to enact the fiscal year 2016-17 State budget (the “2016-17 State Budget”), a \$170.9 billion spending plan that continues the effort to prepare the State for an expected recession by increasing investment in reserves and limiting spending increases. The 2016-17 State Budget features an additional \$2 billion investment in the reserve fund as well as limited one-time spending initiatives that implement the State minimum wage increase, build affordable housing, repair infrastructure and address effects of the drought.

The 2016-17 State Budget includes State general fund revenues of \$123.6 billion, representing a four percent increase from fiscal year 2015-16, and State general fund expenditures of \$122.5 billion, representing a six percent increase from fiscal year 2015-16. The State’s general fund balance is budgeted to be \$2.7 billion at the end of fiscal year 2016-17. The 2016-17 State Budget funds the BSA to a total balance of \$6.7 billion by the end of fiscal year 2016-17, representing 54 percent of the funding goal.

The following table identifies historical and budgeted State general fund revenues, expenditures and fund balances.

State General Fund 2016-17 State Budget

	2014-15 <u>Revised</u> (Millions)	2015-16 <u>Revised</u> (Millions)	2016-17 <u>Budget</u> (Millions)
Prior-year Fund Balance	\$5,103	\$3,444	\$4,875
Revenues and Transfers	111,789	117,001	120,310
Expenditures	<u>113,448</u>	<u>115,571</u>	<u>122,468</u>
Ending Fund Balance	\$3,444	\$4,875	\$2,717
Encumbrances	966	966	966
Special Fund for Economic Uncertainties	2,478	3,909	1,751
Reserves			
Special Fund for Economic Uncertainties	\$2,478	\$3,909	\$1,751
Budget Stabilization Account	<u>1,606</u>	<u>3,420</u>	<u>6,714</u>
Total Reserves	\$4,084	\$7,329	\$8,465

Source: The State Legislative Analyst’s Office.

Education Funding. The Proposition 98 minimum guarantee for K-14 education funding continues to increase after reaching a low of \$47.3 billion in fiscal year 2011-12. The 2016-17 State Budget provides a minimum guarantee of \$71.9 billion to K-14 education, an increase of \$3.5 billion from fiscal year 2015-16 levels. Combined with increases of \$1.5 billion and other one-time savings and adjustments in fiscal years 2014-15 and 2015-16, the 2016-17 State Budget provides a total increase of \$5.9 billion for K-14 education. K-12 education is budgeted to receive \$63.5 billion of the \$71.9 billion Proposition 98 minimum guarantee to K-14 education. Proposition 98 K-12 expenditures are budgeted to be \$10,657 per-pupil in fiscal year 2016-17, an increase of \$440 per-pupil, or 4.3 percent, from revised fiscal year 2015-16 levels. Since fiscal year 2011-12, Proposition 98 funding for K-12 education has grown by more than \$21.7 billion, representing an increase of more than \$3,600 per student.

The Proposition 98 maintenance factor, created in years in which revenue growth is slow or decreases, is the difference between the funding level that would have been budgeted had revenue growth been stronger and the lesser amount that is actually budgeted. The maintenance factor is carried over from year to year until the State’s economy is strong enough to restore the difference by accelerating Proposition 98 funding and adjusted annually for changes in K-12 attendance and *per capita* personal income. The maintenance factor, which was approximately \$11 billion in fiscal year 2011-12, is projected to be reduced to an estimated \$908 million as of the end of fiscal year 2016-17.

LCFF Implementation: The 2016-17 State Budget provides an additional \$2.9 billion for LCFF spending, bringing total LCFF funding to \$55.8 billion, reaching approximately 96 percent of full implementation.

K-12 Mandates Backlog: The 2016-17 State Budget provides for \$1.3 billion to reimburse school districts for the costs of implementing State-mandated programs to substantially reduce outstanding mandate debt, for discretionary uses such as deferred maintenance, professional development or instructional materials. According to the State Legislative Analyst's Office, this reduces the fiscal year 2016-17 K-12 mandates backlog to approximately \$987 million.

The 2016-17 State Budget also provides for certain one-time increases in Proposition 98 general funds for preschool and K-12 educational programs, including:

Proposition 39 Energy Efficiency: \$398.8 million in grants for improved energy efficiency in schools.

College Readiness: \$200 million in block grants over three years to improve eligibility for college admission, allocated based on unduplicated student count in grades 9-12, with a minimum grant per district or charter school of \$75,000.

Child Care and State Preschool: \$137.5 million for increased childcare provider rates; \$7.8 million for almost 3,000 additional full-day State preschool slots for children of low-income families.

Teacher Workforce: \$25 million (plus \$10 million in non-Proposition 98 funds) to fund teacher recruitment and training.

California Collaborative for Educational Excellence: \$24 million for the agency to assist local educational agencies in implementing individual LCAP priorities.

Charter School Start-Up: \$20 million in grants to offset loss of federal funds.

Multi-tiered Systems of Support: \$20 million in grants to improve student outcomes by providing layers of support that address students' academic, behavioral, social and emotional needs.

Proposition 47 Safe Neighborhoods and Schools Act: \$18 million in grants for restorative justice programs to prevent truancy and reduce dropout rates.

Safe Drinking Water In Schools: \$9.5 million in grants to improve access to safe drinking water for students at isolated and economically disadvantaged schools.

The following table identifies historical and proposed Proposition 98 funding.

**Proposition 98 Funding
2016-17 State Budget**

	2014-15 <u>Actual</u> (Millions)	2015-16 <u>Revised</u> (Millions)	2016-17 <u>Budget Act</u> (Millions)
By Segment			
K-12 Schools			
General Fund	\$44,251	\$43,340	\$44,465
Local Property Tax Revenue	<u>14,810</u>	<u>16,759</u>	<u>18,057</u>
Subtotal	\$59,061	\$60,099	\$62,522
Community Colleges			
General Fund	\$5,025	\$5,415	\$5,528
Local Property Tax Revenue	<u>2,306</u>	<u>2,569</u>	<u>2,767</u>
Subtotal	\$7,331	\$7,983	\$8,295
Preschool ¹	\$664	\$885	\$975
Other Agencies ²	<u>90</u>	<u>82</u>	<u>83</u>
Total	\$67,146	\$69,050	\$71,874
By Fund Source			
General Fund	\$50,029	\$49,722	\$51,050
Local Property Tax Revenue	<u>17,117</u>	<u>19,328</u>	<u>20,824</u>
Total	\$67,146	\$69,050	\$71,874

¹Beginning in fiscal year 2015-16, includes \$145 million for wraparound care formerly funded with non-Proposition 98 State general fund.

²Includes State agencies providing direct instruction to K-12 students. Consists entirely of State general fund.

Source: The State Legislative Analyst's Office.

The 2017-18 State Budget

On June 27, 2017, the Governor signed the 2017 Budget Act and associated trailer bills to enact the fiscal year 2017-18 State budget (the "2017-18 State Budget"), a \$180 billion total spending plan representing an increase of seven percent over revised levels for fiscal year 2016-17.

The 2017-18 State Budget estimates that State general fund revenues exceed total general fund expenditures. The 2017-18 State Budget projects State general fund revenues and transfers to total \$125.9 billion, an increase of six percent over revised 2016-17 estimates. The State's largest three sources of general fund tax revenue – personal income taxes, sales and use taxes, and corporate taxes – are projected to increase five percent. State general fund expenditures are projected to be \$125.1 billion, an increase of \$3.7 billion (three percent) over revised 2016-17 levels. The State's general fund balance is budgeted to be \$2.4 billion at the end of fiscal year 2017-18. State special fund expenditures are increased by \$8.5 billion (18 percent) over revised 2016-17 levels, largely due to increased special fund spending on transportation and Medi-Cal. The 2017-18 State Budget provides for year-end total reserves of \$9.9 billion, comprised of \$1.4 billion in the discretionary Special Fund for Economic Uncertainties (SFEU) reserve and \$8.5 billion in the Proposition 2 mandatory Budget Stabilization Account (BSA) reserve fund.

The 2017-18 State Budget includes \$3.1 billion in additional funding for a total of \$74.5 billion in K-14 education funding as required by Proposition 98, including \$1.4 billion additional funds for LCFF, bringing its implementation to 97 percent; increased funding for transportation and infrastructure projects from revenues from fuel and vehicle-related taxes and fees; expansion of State earned-income tax credit to approximately one million additional low-wage families; increased funding for Medi-Cal provider rates and growth in Medi-Cal program from Proposition 56 tobacco tax revenues; increased funding to

counties for cost sharing agreement for provision of in-home supportive services; increased funding for public universities and student financial aid; and increased funding for child care and preschool. In addition, the 2017-18 State Budget provides for a \$6 billion pension loan from the State's cash balances (from the Surplus Money Investment Fund) to PERS, based on estimates that such action will save \$11 billion over the next two decades and stabilize the State's contributions to PERS.

The following table identifies historical and budgeted State general fund revenues, expenditures and fund balances.

**State General Fund
2017-18 State Budget**

	2015-16 <u>Revised</u> (Millions)	2016-17 <u>Revised</u> (Millions)	2017-18 <u>Budget</u> (Millions)
Prior-year Fund Balance	\$3,508	\$4,504	\$1,622
Revenues and Transfers	115,500	118,539	125,880
Expenditures	<u>113,983</u>	<u>121,421</u>	<u>125,096</u>
Ending Fund Balance	\$5,024	\$1,622	\$2,406
Encumbrances	980	980	980
Special Fund for Economic Uncertainties	4,044	642	1,426
Reserves			
Special Fund for Economic Uncertainties	\$4,044	\$642	\$1,426
Budget Stabilization Account	<u>3,529</u>	<u>6,713</u>	<u>8,486</u>
Total Reserves	\$7,574	\$7,355	\$9,912

Source: The State Legislative Analyst's Office.

Education Funding. The Proposition 98 minimum guarantee for K-14 education funding continues to increase after reaching a low of \$47.3 billion in fiscal year 2011-12. The 2017-18 State Budget provides for funding at the minimum guarantee level of \$74.5 billion for fiscal year 2017-18, an increase of \$3.1 billion (4.4 percent) over the three-year fiscal period of 2015-16 through 2017-18, combined with revisions and adjustments of the minimum guarantee for fiscal years 2015-16 and 2016-17, in investment in K-14 education across all segments. The \$3.1 billion increase is required due to the spending levels provided in the past two budget years exceeding the minimum guarantee, as spending above the minimum guarantee in one year becomes part of the base calculation of the minimum guarantee for the following year.

The Proposition 98 maintenance factor, created in years in which State general fund revenue growth is slow or decreases compared to growth in *per capita* personal income, is calculated as the difference between the funding level that would have been budgeted had revenue growth been stronger and the lesser amount that is actually budgeted. The maintenance factor is carried over from year to year until the State's economy is strong enough to restore the difference by accelerating Proposition 98 funding. The maintenance factor was approximately \$11 billion in fiscal year 2011-12. Fiscal year 2017-18 is a Test 2 year (since the increase in the minimum guarantee is due to a 3.7 percent increase in *per capita* personal income and a 0.05 percent decline in K-12 attendance) which results in funding at the minimum guarantee level with a maintenance factor payment of \$536 million. The projected year-end outstanding maintenance factor obligation is \$900 million.

Of the total Proposition 98 spending budgeted for fiscal year 2017-18, \$52.6 billion is State general fund and \$21.9 billion is local property tax revenue. The 2017-18 State Budget includes a \$603 million settle-up payment to K-14 educational agencies (allocated to LCFF and Career Technical Education ("CTE") funding), considered as a Proposition debt repayment, reducing the State's outstanding settle-up obligation from over \$1 billion to \$440 million.

For K-12 education specifically, the 2017-18 State budget provides \$64.7 billion in Proposition 98 funds, \$2.7 billion (4.3 percent) more than the revised 2016-17 level, and \$2.2 billion (3.6 percent) more than the 2016-17 State Budget provided as enacted. The 2017-18 State Budget increases per-pupil funding by \$450 (4.3 percent) from the 2016-17 State Budget, bringing total Proposition 98 per-pupil funding to \$10,863. This total funding includes \$2.4 billion in adjustments to K-12 education funding, of which \$1.5 billion is for on-going increases, \$933 million is for one-time initiatives, and \$328 million is for one-time initiatives funded from other sources. The 2017-18 State Budget also authorizes \$593 million in bond issuance from Proposition 51 general obligation bonds proceeds for school facilities.

The 2017-18 State Budget provides an additional \$1.4 billion in funding to school districts and charter schools for LCFF, bringing total LCFF spending to \$57.4 billion in fiscal year 2017-18 (a 2.7 percent increase over the revised 2016-17 level), bringing the LCFF target level to approximately 97 percent of full implementation.

The 2017-18 State Budget provides for certain adjustments in education spending, including the following:

Per-Pupil Discretionary Grants: One-time funding of \$877 million that local educational agencies may use for any educational purpose, distributed based on average daily attendance; reduces the mandates backlog to \$799 million at the end of fiscal year 2017-18.

Cost-of-Living-Adjustment: Additional ongoing funding of \$65 million to provide for a 1.56 percent cost-of-living adjustment (“COLA”) for mandates block grants to K-14 educational agencies (\$3.5 million for K-12 and \$500,000 for community colleges) and \$61 million to provide for the 1.56 percent COLA for certain categorical programs, including special education, child nutrition, foster youth services, and American Indian education.

After School and Education Safety (ASES) Program: Additional ongoing funding of \$50 million, bringing total spending for ASES to \$600 million, for increased provider reimbursement rates, implementation of new minimum wage obligations.

Classified Employee Teacher Certification: One-time funding of \$25 million in grants to support up to 1,250 classified employees in completing teacher certification education.

CTE Pathways: Additional ongoing funding of \$15 million to support efforts linking secondary and postsecondary CTE; \$200 million for the third and final year of CTE incentive grant program as required by legislation.

Refugee Student Support: One-time funding of \$10 million for supportive services to refugee students transitioning to new learning environments, to be allocated over the next three fiscal years by the California Department of Social Services to school districts impacted by significant numbers of refugee students.

Mandated Reporter Training: Additional ongoing funding of \$8.5 million to add mandated reporter training on the detection and reporting of child abuse to the K-12 mandates block grant.

County Offices of Education: Additional ongoing funding of \$7 million to increase LCFF funding to county offices of education for school district services.

Bilingual Teacher Training: One-time funding of \$5 million in Proposition 98 funds to provide professional development for bilingual teachers.

Online Educational Resources: Additional ongoing funding of \$3 million to fund online educational resources.

California-Grown Fresh School Meals Grants: One-time funding of \$1.5 million in grants to local educational agencies with high proportions of low-income or English-learner students, for the purchase of food grown in the State and expand the number of freshly prepared meals using State-grown ingredients.

Proposition 56 Tobacco Prevention: Funding of \$32 million in new cigarette tax revenue to support the tobacco use prevention education in schools as statutorily required.

Proposition 39 Energy Efficiency: Funding of \$423 million for energy efficiency projects at K-14 schools as statutorily required for the fifth and final year of such funding, with trailing legislation extending the grant opportunity for an additional year.

The following table identifies Proposition 98 budgeted funding levels for fiscal year 2017-18, revised levels for fiscal year 2016-17, and final levels for fiscal year 2015-16, both by segment of educational level and by source of funding.

**Proposition 98 Funding
201718 State Budget**

	2015-16 <u>Final</u> (Millions)	2016-17 <u>Revised</u> (Millions)	2017-18 <u>Enacted</u> (Millions)
By Segment			
K-12 Schools			
General Fund	\$43,074	\$43,955	\$45,763
Local Property Tax Revenue	<u>17,047</u>	<u>18,133</u>	<u>18,981</u>
Subtotal	\$60,121	\$62,089	\$64,745
Community Colleges			
General Fund	\$5,384	\$5,473	\$5,654
Local Property Tax Revenue	<u>2,631</u>	<u>2,768</u>	<u>2,911</u>
Subtotal	\$8,016	\$8,242	\$8,565
Preschool	\$885	\$975	\$1,122
Other Agencies	<u>82</u>	<u>85</u>	<u>91</u>
Total	\$69,103	\$71,390	\$74,523
By Fund Source			
General Fund	\$49,425	\$50,488	\$52,631
Local Property Tax Revenue	<u>19,678</u>	<u>20,902</u>	<u>21,892</u>
Total	\$69,103	\$71,390	\$74,523

Source: The State Legislative Analyst's Office.

Future Budgets

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

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES

Background

From the Separation of Sources Act (1910) until Proposition 13 (1978), local governments had control over property tax rates and revenues within their jurisdiction. Voter approval was not required for most taxes, charges or fees imposed by local governments. Each school district in the State raised revenue by taxing local property owners according to a tax rate established by its governing board, subject to voter approval, and received some supplemental funds from the State. The

State's role in providing for public education and education facilities was limited during this time. Local school districts relied largely on general obligation bonds as the primary source of funding for school facilities.

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

Article XIII A of the State Constitution

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

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

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

The one percent tax is levied and collected by each county, and the revenue is apportioned by the county to each local government agency in the taxing area roughly in proportion to the relative shares of taxes as levied prior to 1979. Local government agencies, including school districts, may not directly levy any *ad valorem* tax, unless the tax is levied to pay debt service (interest and redemption charges) on a local government's indebtedness approved by voters prior to July 1, 1978 or thereafter, as amended by Proposition 46 (1986), bonded indebtedness for the acquisition or improvement of real property approved by a two-thirds majority. In addition, Proposition 39 (2000) added a provision allowing for a lowered voter approval rate specifically for bonds to fund school facilities projects. A school district or community college district may levy *ad valorem* taxes in excess of one percent with 55 percent voter approval if the bonds will be used for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities. The measure must include the specific list of projects to be funded and certification that the school district's governing board has evaluated safety, class size reduction, and information technology needs in developing the list, and must conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Pursuant to legislation, the projected tax rate per \$100,000 of taxable property value levied as the result of any single election may be no more than \$60 in a unified school district, \$30 in a high school or elementary school district, or \$25 in a community college district.

Constitutional Protection For Owners of Municipal Securities

State law imposes a duty on the county tax collector to levy a property tax sufficient to pay debt service on voter-approved indebtedness as discussed above. The initiative power cannot be used to reduce or repeal the authority and obligation of a local government, such as a school district, to levy taxes pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the duty of a local government, such as a school district, and the county with respect to such taxes. Although the initiative power may be used to reduce or repeal other types of charges or taxes imposed by local governments under Article XIII C, discussed below, the law may 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 B of the State Constitution

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

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

Articles XIII C and XIII D of the State Constitution

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

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

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

Minimum Guarantee of State Funding for Education

Proposition 98 (1988), added Article XVI to the State Constitution, requiring that “from all State revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and higher education.” Known as the “minimum guarantee,” funding for K-14 school districts, made up of a combination of State general fund income tax revenues and local property tax revenues, must be the greater of either the same percentage of State general fund revenues as was appropriated in fiscal year 1986-87, or the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The minimum guarantee allocated each year, determined by a set of tests, is approximately 40 percent or more of State general fund revenues.

Test 1 (share of the State general fund) allocates approximately 41 percent of the State general fund revenue to K-14 school districts. Test 1 only applies if Test 2 or Test 3 (described below) does not result in additional funding for K-14 school districts. Test 1 has been used 4 times in the last 29 years, including fiscal year 2014-15. Test 2 (personal income) provides that K-14 school districts shall receive at least the same amount of combined State aid and local tax dollars as was received in the prior year, adjusted for the statewide growth in K-12 ADA and an inflation factor equal to the annual percentage change in *per capita* personal income. Test 2 is used if it results in more funding for K-14 school districts than Test 1 (unless Test 3 applies instead). Test 2 has been used in 14 of the past 29 years, including fiscal year 2015-16. Test 3 (available revenues) only applies in years in which the annual percentage change in *per capita* State general fund tax revenues plus one-half percent is lower than the “Test 2” inflation factor (*i.e.*, the change in *per capita* personal income), in which case the inflation factor is reduced to the annual percentage change in *per capita* State general fund tax revenues plus one-half percent. Test 3 has been used 9 of the past 29 years, including fiscal year 2016-17.

In any year in which Test 3 is used, the difference between the amount appropriated and the amount that would have been appropriated under Test 2 is considered a “maintenance factor” credit to K-14 school districts, to be restored in future years when State revenue growth rebounds to exceed personal income. In years of economic hardship, the State Legislature can suspend the minimum guarantee for a year by a two-thirds vote, which also triggers the maintenance factor obligation, to be restored in later years. Such suspension has only occurred twice, in fiscal years 2004-05 and 2010-11. The State Legislature has the authority to spend more than the minimum guarantee, although any increase creates a higher minimum floor for the following year; this has occurred from time to time. At times, the State also has had outstanding one-time Proposition 98 obligations known as “settle-up” obligations. A settle-up obligation is created when the minimum guarantee increases midyear and the State does not make an additional payment within that fiscal year to meet the higher guarantee. The increased amount is used as the base for the following year’s minimum guarantee. Settle-up funds can be used for any educational purpose, including paying off other state one-time obligations, such as deferrals and mandates. In fiscal year 2016-17, the State is projected to reduce the outstanding maintenance factor obligation to approximately \$548 million.

Community Redevelopment and Revitalization

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

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

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

Limits on State Authority Over Local Tax Revenues

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

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

Proposition 22 (2010) amended Articles XIII and XIX of the State Constitution to further restrict the State’s control over local property taxes in order to stabilize local government revenue sources. Even during times of severe fiscal hardship, the State could not take revenue derived from locally imposed taxes, such as parcel taxes, hotel taxes, utility taxes, and sales taxes, for State purposes, nor could the State delay distribution of tax revenues to local governments, redirect redevelopment agency property tax revenue to other local governments such as school districts, or shift money to the school districts under an ERAF. As a result, the State would have to take other actions to balance its budget in some years, such as reducing State spending or increasing State taxes. Proposition 22’s restriction of the State’s ability to shift local funds made K-14 school districts more directly dependent on the State general fund for Proposition 98 funding.

Deferrals of Payments Owed to K-14 School Districts

Beginning fiscal year 2001-02, as a temporary budget solution, the State postponed, or deferred, payments owed to K-14 school districts for a few weeks, allowing the State to save money while school districts continued to operate by borrowing money or dipping into reserves. Because the deferral lasted only a matter of weeks, there was little impact on school district finances or operations. However, especially during the last recession, the State came to rely excessively on deferrals of payments to K-14 school districts to balance the State budget. As both the length and the amount of deferrals increased, the State withheld several billions of dollars from school districts, resulting in a financial crisis for K-14 school districts which could no longer borrow enough or find reserves to cover the funding shortfall, and program reduction and teacher layoffs ensued. State reliance on payment deferrals peaked in fiscal year 2011–12 when the State deferred approximately 20 percent of all K-14 school district funding. Increasing deferrals authorize school districts to spend at a level of programming the State cannot afford, making the State budget less transparent, and create large future obligations of the State to repay the deferrals. However, as the economy has rebounded, the State has made the repayment of deferrals a priority, and repayment of the deferrals was completed in fiscal year 2015-16.

Temporary State Tax Increases

From 2008 to 2012, the State eliminated more than \$56 billion from State and local funding for local services including education, police, fire, and health care. Proposition 30 (2012) allows the State to levy a temporary sales tax (lasting four years) and income tax on high-income earners (lasting seven years), the revenues of which are dedicated to increased education funding and to balance the State budget. Existing law requires that in years in which the State’s general fund revenues grow by a large amount funding for education must also be increased by a large amount. The tax revenues allocated to education as part of the minimum guarantee are deposited into the Education Protection Account (“EPA”), recalculated and distributed

quarterly to K-14 school districts (89 percent to K-12 school districts and 11 percent to community college districts) as a continuing appropriation not subject to budget adoption. The funds are distributed in the same manner as existing unrestricted per-student funding. The Proposition 30 tax revenue is included in the Proposition 98 calculation, raising the guarantee by billions each year. The remaining Proposition 30 tax revenues will be used to balance the budget.

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

Enacted Budget Required for Disbursement of State Funds

In years in which the State Legislature has not been able to enact a budget by the required deadline, the fiscal year begins without an enacted budget, and the State has, in some cases, issued registered warrants, or IOUs, to pay certain State employees' wages and State debts. In 1988, during such a budgetary impasse, a taxpayers' association argued that such warrants were not authorized without an enacted budget. In the case, known as *Jarvis v. Connell*, the State Court of Appeal held that without an enacted budget, State funds may not be disbursed unless the payment is authorized by the State Constitution, as a continuing appropriation, or by federal mandate.

This could affect school district budgets to the extent that, if there is neither an enacted budget nor emergency appropriation, State payments owed to school districts could be delayed unless they are required as a continuing appropriation or federal mandate. As upheld by the State Supreme Court in 2003, the State is not authorized to disburse funds without an enacted budget or other appropriation, but under federal law is required to pay State employees who are protected by federal wage laws under the Fair Labor Standards Act.

State and School District Budgetary Reserves

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

Proposition 2 (2014) addressed the need for long-term financial stability in the State in the face of economic volatility by dedicating funds to pay down the State's debt, changing the State's reserve policies, and creating a separate budget reserve for K-14 school districts called the Public School System Stabilization Account ("PSSSA"). The law reduced legislative discretion over the timetable for the repayment of State debts and required that 1.5 percent of the State general fund be deposited into the BSA annually, plus an additional amount when the State experiences spikes in capital gains tax revenue in excess of eight percent of State general fund revenues. The PSSSA, also funded with capital gains spikes, is drawn upon when the Proposition 98 minimum guarantee exceeds available State general fund and property tax revenues. Through 2030, half of the funds deposited each year into the BSA must be used to pay fiscal obligations such as budget loans and unfunded State level pension plans. Funds may be withdrawn from BSA only for a disaster or if, over three years, spending does not rise above the highest level of spending. In the case of a recession, only half of the funds can be withdrawn. As a result, a large amount of incremental gains in the State's general fund revenues are allocated to building reserves and repaying debt.

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

percent of school districts in the State, must keep a minimum reserve of two percent. The one school district in the State with an enrollment of 400,001 or more students must keep a minimum reserve of one percent. Many school districts attempt to keep their reserve levels higher than State minimum requirements, from five percent to as much as 25 percent of expenditures. A 17 percent reserve is equal to approximately two months of expenditures and is a standard reserve level for local public agencies.

Senate Bill 858 (2014), enacted as trailing legislation to the State budget, requires school districts, in the event of a deposit by the State to the PSSSA, to reduce total assigned and unassigned reserves to no more than twice its minimum reserve for economic uncertainty, ranging from one to five percent of expenditures depending on the size of the school district. County education officials could exempt a school district from the cap if the school district demonstrates extraordinary fiscal circumstances, including undertaking multi-year infrastructure or technology projects. A smaller reserve could affect the school district's financial condition in the event of an economic downturn. The District cannot predict or when a deposit to the PSSSA might occur or whether future legislation will be enacted that changes this requirement.

School Facilities Funding

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

Funding for SFP grants comes from statewide general obligation bonds approved by the voters in the State. The State retires these bonds by making annual debt service payments. In fiscal year 2016-17, the State will pay \$2.4 billion in debt service on previously issued K-12 facilities bonds and \$300 million in debt service on community college facilities bonds. Proposition 1A (1998) provided \$9.2 billion (\$6.7 billion for K-12 facilities), Proposition 47 (2002) provided \$13.2 billion (\$11.4 billion for K-12 facilities), Proposition 55 (2004) provided \$12.3 billion (\$10 billion for K-12 facilities), Proposition 1D (2006) provided \$10.4 billion (\$7.3 billion for K-12 facilities), and Proposition 51 (2016), the first initiative facilities bond measure, provides \$9 billion (\$6 billion for K-12 facilities). The payment the State must make on Proposition 51 will average approximately \$500 million per year.

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

In most cases, K-12 school and community college districts that receive funding for approved projects must match the funding with local funding according to the type of project. Projects for the purchase of land and new construction are matched evenly. Modernization projects require a match of 40 percent local funding to 60 percent State funding. If no local funding is available, the school district can apply for additional grant funding. Community college projects do not have a specified contribution model and are determined individually. K-12 school and community college districts may sell local general obligation bonds to cover the school district's share of the cost of facility projects. K-12 school districts may also raise funds for facilities by charging fees on new development (community college districts may not). Both K-12 school and community college districts may also raise funds by parcel taxes and other methods used less frequently.

Impact of Future Legislation

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

LEGAL MATTERS

No Litigation

No litigation is pending with service of process having been accomplished, or to the best knowledge of the District, threatened concerning the validity of the Notes, and a certificate of the District to that effect will be furnished to the initial purchaser or purchasers at the time of the original delivery of the Notes. The District is not aware of any litigation pending or threatened questioning the political existence, contesting its ability to receive or accrue for the General Fund taxes, income, revenues, cash receipts and other moneys, or contesting its ability to issue and retire the Notes.

Legal Opinion

Parker & Covert LLP, Sacramento, California, Bond Counsel, will render its opinion with respect to the validity and enforceability of the Resolutions and as to the validity of the Notes. Copies of such approving opinion will be available at the time of delivery of the Notes, and a copy of the legal opinion will be printed on the Notes. The form of the legal opinion proposed to be delivered by Bond Counsel is included as “APPENDIX C” to this Official Statement.

Tax Matters

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

In the opinion of Parker & Covert LLP, Sacramento, California, Bond Counsel, based upon the analysis of existing statutes, regulations, ruling and court decisions, and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, the interest on the Notes is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Notes is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, however, such interest is taken into account when determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. A complete copy of the proposed form of opinion of Bond Counsel is set forth in “APPENDIX C—FORM OF OPINION OF BOND COUNSEL” attached hereto.

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

Notes purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable on their respective maturity dates (“Premium Notes”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable premium in the case of notes, like the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Note, and under Treasury Regulations the amount of tax-exempt interest received, will be reduced by the amount of amortizable premium properly allocable to such purchaser. Owners of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Internal Revenue Code of 1986, as amended, (the “Code”) imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The District has covenanted to comply with certain restrictions designed to assure that interest on the Notes will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Notes being included in federal gross income, possibly from the date of issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after that date of issuance of the Notes may adversely affect the tax status of interest on the Notes. Prospective Owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Resolution, the tax certificate to be entered into on the date of issuance of the Notes (the “Tax Certificate”), and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Parker & Covert LLP, Sacramento, California.

Although Bond Counsel expects to render an opinion that interest on the Notes is excludable from gross income for federal income tax purposes and exempt from State personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect a Beneficial Owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Notes to be subject, directly or indirectly, to federal and/or state income taxation, or otherwise prevent Beneficial Owners of the Notes from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Notes 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 Notes for audit examination, or the course or result of any IRS examination of the Notes, or obligations that present similar tax issues, will not affect the market price or liquidity of the Notes.

The rights of the owners of the Notes 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.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and target audits. It is possible that the Notes will be selected for audit by the IRS. It is also possible that the market value of the Notes might be affected as a result of such an audit of the Notes (or by an audit of similar notes).

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Notes is set forth in “APPENDIX C—FORM OF OPINION OF BOND COUNSEL” attached hereto.

Legality for Investment in California

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

RATING

S&P Global Ratings (“S&P”) has assigned the Notes the rating of “___”. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P if, in the

judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Notes.

MUNICIPAL ADVISOR

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

INDEPENDENT AUDITOR

The financial statements of the District as of and for the year ending June 30, 2016, have been audited by Crowe Horwath LLP, Sacramento, California, and are set forth in “APPENDIX A—THE FINANCIAL STATEMENTS OF THE DISTRICT AS OF AND FOR THE YEAR ENDING JUNE 30, 2016” 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.

UNDERWRITING AND INITIAL OFFERING PRICE

The Notes were sold to _____ (the “Underwriter”), pursuant to a note purchase agreement by and between the District, the County and the Underwriter at a price of \$____, being the principal amount of the Notes of \$____, plus a net original issue premium of \$____, less an underwriting discount of \$____, at a true interest cost (TIC) to the District of ____percent.

The Underwriter has certified the initial prices or yields stated on the cover page hereof. The Underwriter may offer and sell the Notes to certain dealers (including dealers depositing Notes into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices. The reoffering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and Beneficial Owners of the Notes to provide notice of the occurrence of certain enumerated significant events. Notices of such events will be filed by the District with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. The specific nature of the information to be contained in the notices is specified in “APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. This covenant has been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the “Rule”). As of the date of this Official Statement, the District has made all required filings in the past five years for currently outstanding issues in connection with prior undertakings under the Rule.

ADDITIONAL INFORMATION

Additional information concerning the District, the Notes or any other matters concerning the sale and delivery of the Notes may be obtained by contacting Davis Joint Unified School District, 526 B Street, Davis, California 95616, telephone (530) 757-5300, Attention: Chief Business and Operations Officer, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

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

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

Davis Joint Unified School District

By: _____
John A. Bowes, Ed.D.
Superintendent

APPENDIX A

THE FINANCIAL STATEMENTS OF THE DISTRICT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

[TO COME]

APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[TO COME]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[TO COME]

APPENDIX D

COUNTY OF YOLO INVESTMENT POLICY

[TO COME]

APPENDIX E

DTC BOOK-ENTRY ONLY SYSTEM

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The following information concerning The Depository Trust Company, New York, New York (“DTC”) and DTC’s book-entry-only system has been provided by DTC for use in securities disclosure documents. The District takes no responsibility for the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The following description includes the procedures and record-keeping with respect to beneficial ownership interests in the Notes payment of principal and interest, other payments with respect to the Notes to Direct Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Notes, 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, New York, New York (“DTC”) will act as securities depository for the securities (in this Appendix, the “Notes”). The Notes 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 Note will be issued for each maturity of the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial

Owners of Notes may wish to ascertain that the nominee holding the Notes 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 Notes 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 Notes 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or 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 Notes at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Notes 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, Note certificates will be printed and delivered to DTC.

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

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