

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2018****NEW ISSUE - FULL BOOK-ENTRY****RATING: “\_”****See “RATING” herein.**

*In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Corporation, Irvine, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. In the further opinion of Bond Counsel interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax, although Bond Counsel observes that such interest is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax applicable to taxable years beginning before January 1, 2018. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income taxation. Bond Counsel expresses no other opinion regarding or concerning any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS.”*

\$ \_\_\_\_\_ \*

**WILLIAM S. HART JOINT SCHOOL FINANCING AUTHORITY**  
**Lease Revenue Bonds, Series 2018**

**Dated: Date of Delivery****Due: November 1, as shown on inside cover**

**Authority for Issuance.** The bonds captioned above (the “Bonds”) are being issued by the William S. Hart Joint School Financing Authority (the “Authority”) under a resolution adopted by the Board of Directors of the Authority on \_\_\_\_\_, 2018, and a Trust Agreement dated as of August 1, 2018 (the “Trust Agreement”) by and between the Authority and ZB, National Association dba Zions Bank, as trustee (the “Trustee”). See “THE BONDS – Authority for Issuance.”

**Purpose.** The Bonds are being issued primarily to finance the design, construction, renovation, improvement, furnishing, equipping, acquisition, delivery and installation of new construction and modernization projects at certain schools in the William S. Hart Union High School District (the “District”), support facilities and land necessary for such facilities (collectively, the “Project”). In addition, the proceeds of the Bonds will be used to (i) fund a reserve fund for the Bonds, and (ii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

**Security.** Under the Trust Agreement, the Bonds are payable from and secured by a first pledge of and lien on “Revenues” (as defined in this Official Statement) received by the Authority under the Lease Agreement, dated as of August 1, 2018, by and between the Authority, as lessor, and the District, as lessee (the “Lease Agreement”), consisting primarily of lease payments (the “Lease Payments”) made by the District under the Lease Agreement with respect to the lease of certain real property, as further described in this Official Statement. The Bonds are also secured by certain funds on deposit under the Trust Agreement. See “SECURITY FOR THE BONDS.”

**Book-Entry Only.** The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds are issuable as fully registered securities in denominations of \$5,000 or any integral multiple of \$5,000. Purchasers of the Bonds (the “Beneficial Owners”) will not receive physical certificates representing their interest in the Bonds. See “THE BONDS” and “APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

**Payments.** Interest on the Bonds accrues from the date of delivery and is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2018. Payments of principal and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, which will remit such payments to the Beneficial Owners of the Bonds. See “THE BONDS - General Provisions.”

**Redemption.** The Bonds are subject to optional redemption, mandatory sinking fund payment redemption and special mandatory redemption from insurance or condemnation proceeds prior to maturity. See “THE BONDS – Redemption.”

NEITHER THE BONDS, NOR THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE TRUST AGREEMENT. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE DISTRICT.

**MATURITY SCHEDULE**  
**(see inside cover)**

**Cover Page.** This cover page contains certain information for general reference only. It is not a summary of all the provisions of the Bonds. Prospective investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

*The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel. Certain legal matters will also be passed upon for the Authority and the District by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. James F. Anderson Law Firm, A Professional Law Corporation, Laguna Hills, California, is acting as Underwriter’s counsel. Certain legal matters will be passed upon for the District and the Authority by Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, as District Counsel. It is anticipated that the Bonds will be delivered in book-entry form through the facilities of DTC on or about August \_\_\_, 2018.*

[Stifel Logo]

The date of this Official Statement is: \_\_\_\_\_, 2018

\* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances will this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor will there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful.

**WILLIAM S. HART JOINT SCHOOL FINANCING AUTHORITY**  
**Lease Revenue Bonds, Series 2018**

**MATURITY SCHEDULE\***  
**(Base CUSIP†: \_\_\_\_\_)**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity Date</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
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\$ \_\_\_\_\_ % Term Bond Due November 1, 20\_\_, Yield \_\_%, Price: \_\_\_\_, CUSIP†: \_\_\_\_\_

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\* Preliminary; subject to change.

† CUSIP Copyright 2018, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

**WILLIAM S. HART JOINT SCHOOL FINANCING AUTHORITY  
WILLIAM S. HART UNION HIGH SCHOOL DISTRICT  
(LOS ANGELES COUNTY, CALIFORNIA)**

**DISTRICT GOVERNING BOARD**

Steven M. Sturgeon, *President*  
Bob Jensen, *Clerk*  
Joe Messina, *Member*  
Linda Storli, *Assistant Clerk*  
Dr. Cherise Moore, *Assistant Clerk*

**DISTRICT ADMINISTRATION**

Vicki Engbrecht, *Superintendent*  
Ralph Peschek, *Chief Financial Officer*  
Dr. Collyn Nielsen, *Chief Administrative Officer*  
Karen Bladen, *Supervisor, Facilities Accounting*

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**PROFESSIONAL SERVICES**

**BOND COUNSEL**

Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation  
*Irvine, California*

**DISCLOSURE COUNSEL**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

**MUNICIPAL ADVISOR**

Cooperative Strategies, LLC  
*Irvine, California*

**Trustee**

ZB, National Association dba Zions Bank,  
*Los Angeles, California*

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

**Information in Official Statement.** The information set forth in this Official Statement has been furnished by the Authority, the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the District or the Authority in any press release and in any oral statement made with the approval of an authorized officer of the District or the Authority or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project", "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the Authority or any other entity described or referenced herein since the date hereof.

**Involvement of Underwriter.** The following statement has been included in this Official Statement on behalf of the Underwriter of the Bonds: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

**Stabilization of and Changes to Offering Prices.** The Underwriter may overallocate or take other steps that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain securities dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

**Document Summaries.** All summaries of the Trust Agreement, the Lease Agreement or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

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

**Effective Date.** This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, the Authority, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

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

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## OFFICIAL STATEMENT

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**WILLIAM S. HART JOINT SCHOOL FINANCING AUTHORITY**  
**Lease Revenue Bonds, Series 2018**

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the bonds captioned above (the “**Bonds**”) by the William S. Hart Joint School Financing Authority (the “**Authority**”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Trust Agreement (as defined below).

### INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

**Authority for Issuance.** The Authority is issuing the Bonds under the following:

- (a) Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, commencing with Section 6584 (the “**Law**”),
- (b) resolutions adopted by the Board of Directors (the “**Board**”) of the Authority on \_\_\_\_\_, 2018 (the “**Authority Resolution**”), and by the District Governing Board (the “**District Governing Board**”) of the William S. Hart Union High School District (the “**District**”) on \_\_\_\_\_, 2018 (the “**District Resolution**”), and
- (c) a Trust Agreement (the “**Trust Agreement**”) dated as of August 1, 2018, by and between the Authority and ZB, National Association dba Zions Bank, as trustee (the “**Trustee**”).

**The Authority.** The Authority is a joint powers authority between the District and Community Facilities District No. 88-4 of the District pursuant to a Joint Exercise of Powers Agreement Creating the William S. Hart Joint School Financing Authority, dated November 9, 1994, entered into under Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended, for the purpose, among others, of having the Authority provide financing and refinancing for certain projects of the District by entering into, among other arrangements, lease/leasebacks with the District.

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\* Preliminary; subject to change.

**The District.** Formed in 1945, the District provides public education within an approximately 370 square mile area, serving the City of Santa Clarita and neighboring communities. The District is located in the Santa Clarita Valley in the northern part of the County of Los Angeles (the “**County**”). Approximately 26,000 students are enrolled in the District's six comprehensive high schools, continuation school, middle college high school, independent study school, home school support program, six junior high schools, adult school and Regional Occupational Program. For more information regarding the District and its finances, see APPENDIX C attached hereto. See also APPENDIX A hereto for demographic and other information regarding the City of Santa Clarita and the County.

**Purpose of the Bonds.** The Bonds are being issued primarily to finance the design, construction, renovation, improvement, furnishing, equipping, acquisition, delivery and installation of new construction and modernization projects at certain schools in the District, support facilities and land necessary for such facilities (collectively, the “**Project**”). In addition, the proceeds of the Bonds will be used to (i) fund a reserve fund for the Bonds, and (ii) pay the costs of issuing the Bonds. See “FINANCING PLAN.”

**Security for the Bonds and Pledge of Revenues.** Under the Trust Agreement, the Bonds are payable from and secured by a first pledge of and lien on “**Revenues**” (as defined in this Official Statement) received by the Authority under the Lease Agreement dated as of August 1, 2018, between the Authority, as lessor, and the District, as lessee (the “**Lease Agreement**”), consisting primarily of lease payments (the “**Lease Payments**”) made by the District under the Lease Agreement. The Bonds are also secured by certain funds on deposit under the Trust Agreement, including a reserve fund for the Bonds. See “SECURITY FOR THE BONDS.”

The District and the Authority will enter into a Site Lease dated as of August 1, 2018 (the “**Site Lease**”). Under the Site Lease, the District will lease certain real property to the Authority, consisting of the District's West Ranch High School (the “**Site**”). Concurrently, the District and the Authority will enter into the Lease Agreement, under which the Authority will lease the Site back to the District for the purpose of financing the Project. See “THE LEASED PROPERTY.”

**Form of Bonds; Book-Entry Only.** The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York (“**DTC**”), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See “THE BONDS - Book-Entry Only System” and “APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

**Redemption.** The Bonds are subject to optional redemption, mandatory redemption from sinking fund payments, and special mandatory redemption from the proceeds of insurance or condemnation proceeds prior to their stated maturity dates. See “THE BONDS – Redemption.”

**Abatement.** The Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the District's use and possession of the Site or any portion thereof. If the Lease Payments are abated under the Lease Agreement, the Bond Owners would receive less than the full amount of principal of and interest on the Bonds. To the extent proceeds of rental interruption insurance are available (as described below), Lease Payments (or a portion thereof) may be made from those proceeds during periods of abatement. See “SECURITY FOR THE BONDS – Abatement” and “BOND OWNERS' RISKS.”

**Legal Opinion.** Upon delivery of the Bonds, Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel (“**Bond Counsel**”) will release its



final approving legal opinion with respect to the Bonds, regarding the validity and tax-exempt status of the Bonds, in the form attached hereto as APPENDIX D.

***Risks of Investment.*** Debt service on the Bonds is payable only from Lease Payments and other amounts payable by the District to the Authority under the Lease Agreement. For a discussion of some of the risks associated with the purchase of the Bonds, see “BOND OWNERS’ RISKS.”

NEITHER THE BONDS, THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF OR INTEREST THEREON, NOR THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS, CONSTITUTE A DEBT OR A LIABILITY OF THE AUTHORITY, THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL LIMITATION ON INDEBTEDNESS, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT. THE BONDS ARE SECURED SOLELY BY THE PLEDGE OF REVENUES AND CERTAIN FUNDS HELD UNDER THE TRUST AGREEMENT. THE BONDS ARE NOT SECURED BY A PLEDGE OF THE TAXING POWER OF THE DISTRICT. THE AUTHORITY HAS NO TAXING POWER.

## FINANCING PLAN

The Bonds are being issued to provide funds to finance the Project and pay the costs of issuing the Bonds.

### The Project

) The Project anticipated to be financed with proceeds of the Bonds includes the design, construction, renovation, improvement, furnishing, equipping, acquisition, delivery and installation of new construction and modernization projects at certain schools in the District, support facilities and land necessary for such facilities (collectively, the “**Project**”).

### Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Bonds are as follows:

#### **Sources of Funds:**

Principal Amount of Bonds	\$
Plus: [Net] Original Issue [Premium / Discount]	
<i>TOTAL SOURCES</i>	<hr/> \$

#### **Uses of Funds:**

Deposit to Costs of Issuance Fund <sup>(1)</sup>	\$
Underwriter's Discount	
Deposit to Project Fund	
<i>TOTAL USES</i>	<hr/> \$

(1) Represents funds to be used to pay Costs of Issuance, which include legal fees, printing costs, rating agency fees and other costs of issuing the Bonds.

## **THE LEASED PROPERTY**

### **Description and Location**

Lease Payments will be made by the District under the Lease Agreement for the use and occupancy of the Site, which consists of the District's West Ranch High School.

### **Modification**

Under the Lease Agreement, the District, at its own expense, will have the right to make additions, improvements and modifications to the Site. All such additions, improvements and modifications will thereafter comprise part of, and be subject to, the provisions of the Lease Agreement. Such additions, improvements and modifications may not in any way damage the Site, substantially alter its nature or cause it to be used for purposes other than those authorized under the provisions of State and federal law; and improvement of or on the Site, upon completion of any additions, improvements and modifications made pursuant to the Lease Agreement, will be of a value which is not less than the value of such item immediately prior to the making of such additions, improvements or modifications.

Except for permitted encumbrances, the District will not permit any mechanic's or other lien to be established or remain against the Site for labor or materials furnished in connection with any additions, modifications, repairs, renewals or replacements made by the District pursuant to the Lease Agreement; provided that if any such lien is established and the District first notifies the Authority of the District's intention to do so, the District may in good faith contest any lien filed or established against any item or improvement of or on the Site, and in such event may permit the liens so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, and will provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such lien, in form satisfactory to the Authority. The Authority will cooperate fully in any such contest, upon the request and at the expense of the District.

### **Substitution or Release**

Under the Lease Agreement, the District will have the right to substitute alternate real property for any portion of the Site or to release a portion of the Site from the Lease Agreement as described below. All costs and expenses incurred in connection with such substitution or release will be borne by the District. Notwithstanding any substitution or release pursuant to the Lease Agreement, there will be no reduction in or abatement of the Lease Payments due from the District hereunder as a result of such substitution or release.

Any such substitution or release of any portion of the Site will be subject to the following specific conditions, which are conditions precedent to such substitution or release:

(a) an Independent Appraiser must find (and deliver a certificate to the District and the Trustee setting forth its findings) that the Site, as constituted after such substitution or release: (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Lease Payments payable by the District in any Rental Period, and (ii) has a useful life equal to or greater than the useful life of the Site as constituted prior to such substitution or release;

(b) the District must obtain or caused to be obtained the Title Insurance Policy with respect to any substituted property in the amount of the fair market value of such substituted property (which may be determined by replacement value or by an Independent Appraiser), of the type and with the endorsement described in the Lease Agreement;

(c) the District must provide the Trustee with an Opinion of Bond Counsel to the effect that such substitution or release will not, in and of itself, cause the interest on the Bonds to be included in gross income for federal income tax purposes;

(d) the Authority and/or District must give, or make arrangements to give, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Certificate;

(e) the District, the Authority, and the Trustee must execute, and the District must cause to be recorded with the County of Los Angeles Recorder, any document necessary to reconvey to the District the portion of the Site being substituted or released and to include any substituted real property in the description of the Site contained in the Lease Agreement and in the Site Lease; and

(f) the District must certify to the Authority that the substituted real property is of approximately the same degree of essentiality to the District as the portion of the Site for which it is being substituted.

## THE BONDS

*This section provides summaries of the Bonds and certain provisions of the Trust Agreement. See APPENDIX B for a more complete summary of the Trust Agreement. Capitalized terms used but not defined in this section have the meanings given in APPENDIX B.*

### Authority for Issuance

The Bonds are being issued under the Law, the Authority Resolution (which was adopted by the Board of the Authority on \_\_\_\_\_, 2018), the District Resolution (which was adopted by the District Governing Board on \_\_\_\_\_, 2018), and the Trust Agreement.

### General Provisions

**Bond Terms.** The Bonds will be dated the Dated Date, and will be paid on the dates and in the principal amounts and interest with respect thereto as shown on the inside cover of this Official Statement. The Bonds will be issued in fully registered form, without coupons, in the denomination of \$5,000 each or an integral multiple thereof.

**Payments of Principal and Interest.** Interest on each Bond will be payable at the respective per annum rates set forth on the inside cover of this Official Statement, and will be payable on each Payment Date until maturity or earlier redemption, computed using a year of 360 days comprised of twelve 30-day months. Principal of, premium, if any, and interest on the Bonds will be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

**Record Date.** Under the Trust Agreement, "Record Date" means the close of business on the 15th day of the calendar month preceding any Payment Date, whether or not such day is a Business Day.

**Calculation of Interest.** Interest on any Bond will be payable from the Payment Date next preceding the date of authentication thereof, unless:

(a) it is authenticated on or before a Payment Date and after the close of business on the preceding Record Date, in which event interest will be payable from such Payment Date; or

(b) it is authenticated prior to the first Record Date, in which event interest thereon will be payable from the Dated Date; provided, however, that if on the date of authentication of any Bond interest thereon is in default, interest thereon will be payable from the Payment Date to which interest has previously been paid or made available for payment or if no interest has been paid or made available for payment, from the Dated Date.

**Bond Payments.** Interest on each Outstanding Bond will be payable on each Payment Date to the Owner thereof as of the close of business on the Record Date immediately preceding each Payment Date, such interest to be paid by check of the Trustee, mailed by first-class mail to the Owner at his address as it appears on the Bond Register (or such other address as is furnished to the Trustee in writing by the Owner).

An Owner of \$1,000,000 or more in Principal Amount of Bonds may be paid by wire transfer in immediately available funds to an account in the United States of America if the Owner makes a written request of the Trustee prior to the Record Date preceding such Payment Date specifying the account address. The notice may provide that it will remain in effect for subsequent interest payments until changed or revoked by another written notice. Payments of defaulted interest will be paid by check of the Trustee mailed by first-class mail to the registered Owners of the Bonds as of a special record date to be fixed by the Trustee in its sole discretion, notice of which will be given to the Owners of the Bonds not less than ten days prior to such special record date.

The Bonds are payable as to principal upon surrender thereof at the Office of the Trustee. The principal of and interest on the Bonds, as applicable, will be payable by check in lawful money of the United States of America.

*While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “– Book-Entry Only System” below.*

### **Redemption\***

**Optional Redemption.** The Bonds maturing on or before May 1, 20\_\_\_\_ are not subject to optional redemption prior to maturity.

Those Bonds maturing on or after May 1, 20\_\_\_\_, are subject to redemption prior to maturity from any funds legally available therefor and deposited with the Trustee and on deposit in the Optional Redemption Account of the Redemption Fund, in whole or in part on any date, on or after May 1, 20\_\_\_\_, at the principal amount of the Bonds to be redeemed, plus accrued but unpaid interest to the redemption date, without premium.

**Special Mandatory Redemption From Insurance or Condemnation Proceeds.** The Bonds are subject to mandatory redemption prior to maturity, as a whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued but unpaid interest to the redemption date, without premium, from Net Proceeds deposited in the Mandatory Redemption Account of the Redemption Fund pursuant to the Trust Agreement following an event of damage to, or destruction, theft or condemnation of, the Site or any portion thereof or loss of the use or possession of the Site or any portion thereof due to a title defect.

**Mandatory Sinking Fund Redemption.** The Term Bond maturing on May 1, 20\_\_\_\_, will be subject to sinking fund redemption, in part, by lot, on May 1, 20\_\_\_\_, and on each May 1 thereafter prior to maturity, from Sinking Fund Payments on deposit in the Sinking Fund Redemption Account of the Redemption Fund, at the principal amount of such Term Bond to be redeemed, without premium, plus accrued but unpaid interest to the redemption date as indicated on the following table:

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\* Preliminary; subject to change.

Mandatory Sinking Fund Redemption of  
Term Bonds Maturing May 1, 20\_\_

Sinking Fund Redemption Date ( <u>May 1</u> )	Principal Amount <u>To Be Redeemed</u>
---	---

The Term Bond maturing on May 1, 20\_\_, will be subject to sinking fund redemption, in part, by lot, on May 1, 20\_\_, and on each May 1 thereafter prior to maturity, from Sinking Fund Payments on deposit in the Sinking Fund Redemption Account of the Redemption Fund, at the principal amount of such Term Bond to be redeemed, without premium, plus accrued but unpaid interest to the redemption date as indicated on the following table:

Mandatory Sinking Fund Redemption of  
Term Bonds Maturing May 1, 20\_\_

Sinking Fund Redemption Date ( <u>May 1</u> )	Principal Amount <u>To Be Redeemed</u>
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In the event of a partial redemption of the Term Bonds pursuant to the Trust Agreement, the Sinking Fund Payments for such Term Bonds set forth above will be proportionately reduced pursuant to calculations made by the Trustee.

***Selection of Bonds for Redemption.*** Whenever provision is made in the Trust Agreement for the redemption of Bonds (other than from Sinking Fund Payments for sinking fund redemption as described above) and less than all Outstanding Bonds are to be redeemed, an Authority Representative will direct the Principal Amount of each maturity of Bonds to be redeemed. Within a maturity, the Trustee will select Bonds for redemption by lot, provided, however, that the portion of any Bond to be redeemed in part will be in the Principal Amount of \$5,000 or any integral multiple thereof. The Trustee shall promptly notify the Authority of the Series 2018 Bonds so selected for redemption on such date.

If Bonds are to be redeemed through optional and mandatory sinking fund redemption on the same date, or special mandatory redemption and mandatory sinking fund redemption on the same date, the Trustee will first select the Bonds to be redeemed by lot through mandatory sinking fund redemption.

***Notice of Redemption.*** When redemption is authorized or required under the Trust Agreement, the Trustee will give notice of the redemption of the Bonds ("**Redemption Notice**") to the Bond Owners at the expense of the Authority. The Redemption Notice shall specify:

- (a) that the whole or a designated portion of the Bonds is to be redeemed;

- (b) the numbers (if less than all the Bonds of a maturity are to be redeemed) and CUSIP® numbers of the Bonds to be redeemed;
- (c) the date of notice and the date of redemption;
- (d) the place or places where the redemption will be made including the name and address of any redemption agent and;
- (e) descriptive information regarding the Bonds, including the dated date, interest rates and stated maturity dates.

The Redemption Notice will further state that on the specified redemption date there will become due and payable upon each Bond to be redeemed, the Principal (or portion) with respect thereto, together with interest accrued to said redemption date and redemption premium, if any, and that from and after such redemption date interest with respect thereto will cease to accrue and be payable (or in the case of a partial redemption, interest will cease to accrue with respect to such redeemed portion) from and after the date fixed for redemption.

The Trustee shall take the following actions with respect to such Redemption Notice:

- (a) At least 20 but not more than 60 days prior to the redemption date, the Redemption Notice will be given to the respective Bond Owners designated for redemption by first-class mail, postage prepaid, at their addresses appearing on the Bond Register at the close of business on the fifth Business Day before such Redemption Notice is given.
- (b) Further notice will be given by the Trustee as set out hereinafter, but no defect in such further notice or any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a redemption if notice thereof is given as prescribed above. Such further notice will be given at least 20 days before the redemption date by (i) first-class mail, postage prepaid, (ii) confirmed facsimile transmission, or (iii) overnight delivery service, to DTC and, upon written request of the Authority, to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds, and will be filed electronically with the Informational Service(s), or at the request of the Authority, any other information services that disseminate notice of redemption of obligations such as the Bonds.

***Rescission of Redemption.*** Any Redemption Notice may specify that redemption of the Bonds designated for redemption on the specified date will be subject to the receipt by the Authority of monies sufficient to cause such redemption (and will specify the proposed source of such monies), and neither the Authority, the District nor the Trustee will have any liability to the Owners of any Bonds, or any other party, as a result of the Authority's failure to redeem the Bonds designated for redemption as a result of insufficient monies therefor.

Additionally, the Authority may rescind any optional redemption of the Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption will be given in the same manner in which the Redemption Notice was originally given.



The actual receipt by the Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission. Neither the Authority nor the Trustee will have any liability to the Owners of any Bonds, or any other party, as a result of the Authority's decision to rescind the redemption of any Bonds pursuant to this provision of the Trust Agreement.

Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given will affect the sufficiency of the proceedings for the redemption of the Bonds. An affidavit by the Trustee that the Redemption Notice has been given as required by the Trust Agreement will be conclusive against all parties, including all Bond Owners.

***Effect of Redemption.*** Notice having been given as aforesaid, and the moneys for the redemption, including interest to the applicable redemption date, having been set aside in the Redemption Fund, the portion of Bonds to be redeemed will become due and payable on said redemption date, and, upon presentation and surrender thereof at the Office of the Trustee specified in the Redemption Notice, said Bonds will be paid at the redemption price with respect thereto, plus any unpaid and accrued interest to said redemption date.

***Purchase in Lieu of Redemption.*** Money held in the Redemption Fund and money held in the Principal Account of the Bond Fund hereunder may be used to reimburse the Authority for the purchases of Bonds that would otherwise be subject to redemption from such moneys upon the delivery of such Bonds to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select Bonds for redemption. The purchase price of any Bonds purchased by the Authority hereunder may not exceed the applicable redemption price of the Bonds which would be redeemed but for the operation of the Trust Agreement (accrued interest to be paid from the Interest Account of the Bond Fund). Any such purchase must be completed prior to the time notice would otherwise be required to be given to redeem the related Bonds. All Bonds so purchased must be surrendered to the Trustee for cancellation and applied as a credit against the obligation to redeem such Bonds from such moneys.

### **Book-Entry Only System**

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple of \$5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any redemption premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM" for further information regarding DTC and the book-entry system.

### **Transfer, Registration and Exchange**

*The following provisions regarding the exchange and transfer of the Bonds apply only during any period in which the Bonds are not subject to DTC's book-entry system. While the Bonds are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC. See "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."*

**Bond Register.** The Trustee will keep, or cause to be kept at the Office of the Trustee, a Bond Register, which will at all times upon reasonable notice be open to inspection by the District and the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations consistent herewith as it may prescribe, register or transfer or cause to be registered or transferred, on the Bond Register, Bonds as described below.

**Transfer and Exchange of Bonds.** Each Bond will be transferable only upon the Bond Register which will be kept for that purpose at the Office of the Trustee, by the registered Owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof, together with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered Owner or his duly authorized attorney. Upon the transfer of any such Bond, the Trustee will provide in the name of the transferee, a new Bond, or Bonds, of the same aggregate Principal Amount and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond pursuant to the Trust Agreement in which case the Principal Amount of the new Bond will be equal to the unredeemed Principal portion of the Bond submitted for transfer).

Bonds may be exchanged at the Office of the Trustee for a like aggregate Principal Amount of Bonds of other Authorized Denominations of the same maturity and interest rate.

The Trustee will deem and treat the person in whose name any Outstanding Bond is registered upon the Bond Register as the absolute owner of such Bond, whether such Bond is overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such registered Owner or upon his order will be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority or the Trustee will be affected by any notice to the contrary.

**Regulation with Respect to Exchange or Transfer.** In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Trustee will authenticate and deliver Bonds in accordance with the provisions of the Trust Agreement. All Bonds surrendered in any such exchanges or transfers will forthwith be canceled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority and the Trustee may make a charge sufficient to reimburse any of them for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provision of the Trust Agreement, the cost of preparing each new Bond and any other expenses of the Authority or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge other than one imposed by the Authority) will be paid by the Authority.

The Trustee will not be obliged to make any exchange or transfer of Bonds during the 15 days next preceding any date fixed for the selection of Bonds for redemption or after a Bond has been selected for redemption.

**DEBT SERVICE SCHEDULE**

The table below shows the semiannual and bond year debt service payments on the Bonds.

<b>Date (May 1)</b>	<b>Principal</b>	<b>Interest</b>	<b>Bond Year Debt Service</b>
	\$	\$	\$

Total: \_\_\_\_\_

## SECURITY FOR THE BONDS

*The principal of and interest on the Bonds are not a debt of the District, nor a legal or equitable pledge, charge, lien or encumbrance, upon any income, receipts, or revenues of the District or the Authority except the Revenues and other amounts pledged under the Trust Agreement.*

*This section provides summaries of the security for the Bonds and certain provisions of the Trust Agreement, the Lease Agreement and the Site Lease. See "APPENDIX B – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a more complete summary of the Trust Agreement, the Lease Agreement and the Site Lease. Capitalized terms used but not defined in this section have the meanings given in APPENDIX B.*

### **Revenues; Pledge of Revenues**

**Pledge of Revenues and Other Amounts.** Under the Trust Agreement, the Revenues are irrevocably pledged to and will be used for the punctual payment of principal of and interest on the Bonds, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding. This pledge constitutes a first and exclusive lien on the Revenues in accordance with the Trust Agreement.

**Definition of Revenues.** "Revenues" are defined in the Trust Agreement as follows:

- (a) all revenues, issues, income, rents, royalties, profits and receipts derived or to be derived by the Authority from or attributable to the lease of the Site to the District, including all revenues attributable to the lease of the Site or to the payment of the costs thereof received or to be received by the Authority under the Lease Agreement, or any part thereof or any contractual arrangement with respect to the use of the Site, including the payment of Lease Payments, Additional Rent (as defined in the Lease Agreement) and Reserve Replenishment Rent (as defined in the Lease Agreement) thereunder,
- (b) the proceeds of any insurance, including the proceeds of any self-insurance covering the loss relating to the Site,
- (c) all proceeds of rental interruption insurance policies, if any, carried with respect to the Site pursuant to the Lease Agreement,
- (d) all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (other than the Construction Fund, Costs of Issuance Fund and the Rebate Fund and any moneys to be deposited therein, or interest earnings thereon in the Rebate Fund), and
- (e) any additional property that may from time to time, by delivery or by writing of any kind, be subjected to the lien of the Trust Agreement by the Authority or by anyone on its behalf, subject only to the provisions of the Trust Agreement and the Lease Agreement.

**Assignment to Trustee.** The Authority has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Site Lease and the Lease Agreement, including but not limited to all of the Authority's rights to receive and collect all of the Lease Payments, Reserve Replenishment Rent and prepayments of Lease Payments and all

other amounts required to be deposited in the Revenue Fund pursuant to the Lease Agreement or the Trust Agreement.

All Lease Payments, Reserve Replenishment Rent and prepayments of Lease Payments and such other amounts to which the Authority may at any time be entitled will be paid directly to the Trustee, and all of the Lease Payments, Reserve Replenishment Rent and prepayments of Lease Payments collected or received by the Authority will be deemed to be held and to have been collected or received by the Authority as the agent of the Trustee, and if received by the Authority at any time will be deposited by the Authority with the Trustee within one Business Day after the receipt thereof, and all such Lease Payments, Reserve Replenishment Rent and prepayments of Lease Payments and such other amounts will be forthwith deposited by the Trustee upon the receipt thereof in the Revenue Fund, the Reserve Fund or the Redemption Fund as provided in the Trust Agreement.

### **Allocation of Revenues by Trustee; Application of Funds**

**General.** Under the Trust Agreement there is established with the Trustee in trust a special fund designated the "Bond Fund," which will be held by the Trustee and which will be kept separate and apart from all other funds and money held by the Trustee. The Trustee will administer such fund as provided in the Trust Agreement. The Bond Fund will be maintained by the Trustee until all required Lease Payments are paid in full pursuant to the terms of the Lease Agreement, or until such Payment Date as there are no Bonds Outstanding. Within the Bond Fund, the Trustee will establish the "Interest Account" and the "Principal Account."

**Interest Account and Principal Account.** Moneys transferred to the Interest Account and the Principal Account pursuant to the Trust Agreement will be applied by the Trustee to the payment of interest accrued and principal due and payable on the Bonds for which such deposit or transfer was made on any Payment Date therefor.

If on any Payment Date the amount of funds on hand in the Bond Fund is insufficient to pay the full amount of principal and interest accrued due and payable on the Bonds, the Trustee will apply such funds first to the payment of interest accrued past due, pro rata, if necessary, and second to the payment of principal past due, pro rata, if necessary.

If on any Payment Date the amount of funds on hand in the Bond Fund is sufficient to pay the full amount of the interest accrued and principal due and payable on the Bonds, and the Trustee fails to pay such principal and interest so due and payable on such Payment Date, the District and the Authority may, jointly or individually, immediately thereupon pursue any and all of their respective legal remedies to compel the Trustee to comply with the applicable terms and conditions of the Trust Agreement in such respect. This provision of the Trust Agreement will not be in derogation of any other rights any party may have to pursue any other legal remedies that each party may have under the terms thereof.

### **Deposit of Revenues in Revenue Fund.**

**Trustee.** All Lease Payments received by the Trustee under the Lease Agreement will be deposited into the Revenue Fund. The Trustee will transfer on each Payment Date from the Revenue Fund to the Interest Account of the Bond Fund an amount which, together with any amount on deposit therein, equals the interest then due on such Payment Date on the Bonds in accordance with the terms of the Trust Agreement. The Trustee will transfer on each maturity date for the Bonds from the Revenue Fund to the Sinking Fund Redemption Account of the

Redemption Fund, or the Principal Account of the Bond Fund, as applicable, an amount which, together with any amount on deposit therein, equals the principal then due on such maturity date with respect to the Bonds in accordance with the terms of the Trust Agreement.

***Delinquent Lease Payments.*** All delinquent Lease Payments received under the Lease Agreement and any proceeds of rental interruption insurance with respect to the Site, if any, received by the Trustee will be deposited into the Revenue Fund. All proceeds of rental interruption insurance and delinquent Lease Payments so received will be applied first to the payment of overdue installments of interest, then to the payment of any overdue installments of principal and then to make up any deficiency in the Reserve Fund. Any amounts remaining in the Revenue Fund on each Payment Date or maturity date which are not required for the payment of principal or interest on the next succeeding Payment Date or maturity date will be first transferred to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, applied as a credit against the next following Lease Payment, including any remaining money representing delinquent Lease Payments and any proceeds of rental interruption insurance that remain on deposit in the Revenue Fund.

***The Revenue Fund.*** The Revenue Fund will be maintained by the Trustee until all Lease Payments due under the Lease Agreement have been paid by the District. Lease Payments paid by the District, as well as any liquidated damages, proceeds of rental interruption insurance maintained by the District, and any other amounts required by the Lease Agreement will be deposited by the Trustee in the Revenue Fund and applied to the payment of Lease Payments or to make up any deficiency in the Reserve Fund as described below.

Moneys available in the Reserve Fund, or amounts available under the Reserve Facility, will be transferred to the Revenue Fund and used to satisfy deficiencies and to make other payments pursuant to the Trust Agreement.

Any funds remaining in the Revenue Fund after payment of all Outstanding Bonds, pursuant to the Trust Agreement, including accrued interest and payment of applicable fee amounts to the Trustee, or provision made therefor satisfactorily to the Trustee, and all other charges against the Revenue Fund have been satisfied, will be withdrawn by the Trustee and remitted to the Authority.

#### **Establishment and Application of Bond Fund.**

***General.*** Under the Trust Agreement there is established with the Trustee in trust a special fund designated the "Bond Fund," which will be held by the Trustee and which will be kept separate and apart from all other funds and money held by the Trustee. The Trustee will administer such fund as described below. The Bond Fund will be maintained by the Trustee until all required Lease Payments are paid in full pursuant to the terms of the Lease Agreement, or until such Payment Date as there are no Bonds Outstanding.

Within the Bond Fund, the Trustee will establish the "Interest Account" and the "Principal Account."

***Interest Account and Principal Account.*** Moneys transferred to the Interest Account and the Principal Account will be applied by the Trustee to the payment of interest accrued and principal due and payable on the Bonds for which such deposit or transfer was made on any Payment Date therefor.

If on any Payment Date the amount of funds on hand in the Bond Fund is insufficient to pay the full amount of principal and interest accrued due and payable on the Bonds, the Trustee will apply such funds first to the payment of interest accrued past due, pro rata, if necessary, and second to the payment of principal past due, pro rata, if necessary.

If on any Payment Date the amount of funds on hand in the Bond Fund is sufficient to pay the full amount of the interest accrued and principal due and payable on the Bonds, and the Trustee fails to pay such principal and interest so due and payable on such Payment Date, the District and the Authority may, jointly or individually, immediately thereupon pursue any and all of their respective legal remedies to compel the Trustee to comply with the applicable terms and conditions of the Trust Agreement in such respect. This provision of the Trust Agreement will not be in derogation of any other rights any party may have to pursue any other legal remedies that each party may have under the terms thereof.

### **Lease Payments; Covenant to Appropriate**

***Lease Payments.*** Under the Lease Agreement, the District agrees to pay to the Authority, as “Base Rental” for the use and possession of the Site, the Lease Payments on the Due Dates, provided that the District will receive a credit for any amounts on hand in the Lease Payment Fund and the Reserve Fund at the time any Lease Payment is due, and that at such time as the moneys on hand in the Lease Payment Fund are equal to all Lease Payments remaining unpaid, such moneys will be applied by the Trustee, pursuant to the Trust Agreement and to such Lease Payments on behalf of the District, and the District will not be required to make any further Lease Payments under the Lease Agreement. If the District fails to make any Lease Payment when due, notwithstanding that moneys are withdrawn from the Reserve Fund for such purpose pursuant to the Trust Agreement, the Lease Payment will continue as an obligation of the District until paid.

The obligation of the District to make the Lease Payments does not constitute a debt of the District or of the State, or of any political subdivision thereof, within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District or the State is obligated to levy or pledge any form of taxation or for which the District or the State has levied or pledged any form of taxation.

***Payments Other than Regularly Scheduled Payments.*** If the term of the Lease Agreement is extended pursuant to the Lease Agreement, the obligation of the District to pay Total Rent will continue to and including the Due Date preceding the date of termination of the Lease Agreement (as so extended pursuant to the Lease Agreement). Upon such extension, the principal and interest components of the Lease Payments will be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components; provided, however, that the Total Rent payable in any Rental Period may not exceed the annual fair rental value of the Site.

### ***Reserve Replenishment Rent.*** If:

(a) funds have been withdrawn from the Reserve Fund in order to pay interest or principal evidenced by the Bonds or if there is a deficiency in the Reserve Fund resulting from a decrease of 10% or more in the market value of the Permitted Investments in the Reserve Fund, determined as provided in the Trust Agreement, and;

(b) Lease Payments are not in abatement pursuant to the Lease Agreement, and

(c) the amount of such Lease Payments is less than the Fair Rental Value (as set forth in the Lease Agreement), and the amount on deposit in the Reserve Fund is less than the Reserve Requirement as determined under the Trust Agreement,

then the District will pay from its first available moneys after payment of Lease Payments, to the Trustee, Reserve Replenishment Rent consistent with such fair market rental (i) over a one-year period, in substantially equal quarterly payments to replenish the Reserve Fund to the Reserve Requirement in the event that such deficiency results from a withdrawal from the Reserve Fund, or (ii) if such payments prescribed in clause (i) are inconsistent with the Fair Rental Value or if all Lease Payments have been made in full, in such maximum amounts as is recommended by the appraisal reference above consistent with Fair Rental Value on each Payment Date until the amount on deposit in the Reserve Fund equals the Reserve Requirement as determined under the Trust Agreement.

**Additional Rent.** In addition to the Lease Payments set forth above, during the Term of the Lease Agreement the District agrees to pay when due or on the next Due Date following receipt of statements therefor or estimates thereof furnished by or on behalf of the Authority or provided otherwise, Additional Rent equal to the sum of the following:

(a) all taxes and assessments of any nature whatsoever, including, but not limited to, excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Site, or upon any interest of the Authority, the Trustee or the Owners therein or in the Lease Agreement;

(b) all fees and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Bonds) of the Trustee in connection with the performance of its duties hereunder and under the Trust Agreement that do not otherwise constitute Lease Payments or payments of Reserve Replenishment Rent;

(c) insurance premiums, if any, on all insurance required under the provisions of the Lease Agreement;

(d) all administrative costs of the Authority related to the Project or the Site, including, without limiting the generality of the foregoing, fees and charges of auditors, accountants and attorneys, any amounts payable under the Lease Agreement, and all other necessary administrative costs of the Authority or charges required to be paid by the Authority in order to comply with the terms of the Bonds or the Trust Agreement and to defend and indemnify the Authority and its members, officers and directors; and

(e) all other payments required to be paid by the District under the Lease Agreement or the Trust Agreement.

The District will pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Trustee to the District stating the amount of Additional Rent then due and payable and the purpose thereof.

**Consideration.** Rental Payments for each semi-annual Rental Payment during the Term of the Lease Agreement will constitute the total rent for said semi-annual Rental Payment period, and will be paid by the District in each semi-annual Rental Payment period for and in consideration



of the right of the use and possession of, and the continued use and enjoyment of the Site during each such period for which any Rental Payments are to be paid. The Authority and the District have agreed and determined that the Rental Payments represent the fair rental value of the Site. In making such determination, consideration has been given to the costs of financing the Project, other obligations of the Parties under the Lease Agreement, the uses and purposes which may be served by the Site and the benefits therefrom which will accrue to the District and the general public.

***Payment; Credit.*** Each Lease Payment will be paid in lawful money of the United States of America to or upon the order of the Authority at the Principal Office of the Trustee, or such other place or entity as the Authority may designate. Each Lease Payment will be deposited with the Trustee no later than the Due Date preceding the Payment Date on which such Lease Payment is due. Any Lease Payment which is not paid by the District when due and payable under the terms of the Lease Agreement will bear interest from the date when the same is due until the same is paid at the rate of 10% per annum. Amounts required to be deposited by the District with the Trustee pursuant to the Lease Agreement on any date will be reduced to the extent of available amounts on deposit in the Lease Payment Fund, or the Bond Fund and its subaccounts.

If any payment is due on a day which is not a Business Day, such payment will be made on the next Business Day. Notwithstanding any dispute between the Authority and the District under the Lease Agreement, the District will make all payments when due and will not withhold any payments pending the final resolution of such dispute. In the event of a determination that the District was not liable for said payments or any portion thereof, said payments or excess payments, as the case may be, will be credited against subsequent payments due under the Lease Agreement.

***Fair Rental Value.*** The Rental Payments will be paid by the District in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Site during each such period for which the rental is being paid. The District and the Authority have agreed and determined that Rental Payments are not in excess of the fair rental value of the Site. In making such determination of fair rental value, consideration has been given to the uses and purposes that may be served by the Site and the benefits therefrom that will accrue to the District and to the general public. Rental Payments for the Site during each Rental Period will constitute the total rent for said Rental Period.

***Covenant to Budget and Appropriate.*** Under the Lease Agreement, Rental Payments will be paid from any source of legally available funds of the District. The District covenants to take such action as may be necessary to include all Rental Payments due hereunder in its annual budget. It will be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants made by the District in the Lease Agreement.

During the Term of the Lease Agreement, the District will provide to the Trustee, no later than 20 days following adoption of the budget for that Fiscal Year, a certificate of the District Representative that the Rental Payments due in that Fiscal Year have been included in the budget approved by the Board for such Fiscal Year; or if no budget has been approved by [September 15th] of any year, the District shall deliver to the Trustee no later than [September 30th] of such year, a certificate of the District Representative that the Rental Payments due in that Fiscal Year have been appropriated by a Resolution duly adopted by the Board.

## **Limited Obligation**

THE OBLIGATION OF THE DISTRICT TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE AUTHORITY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

## **Abatement**

(a) Except as otherwise specifically provided in the Lease Agreement, during any period in which, by reason of material damage to, or destruction or condemnation of, the Site, there is substantial interference with the District's right to use and occupy any portion of the Site, Rental Payments will be abated proportionately, and the District waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The amount of such abatement will be agreed upon by the District and Authority; provided, however, that the Rental Payments due for any Rental Period may not exceed the fair rental value of that portion of the Site available for use and occupancy by the District during such Rental Period. The District and the Authority will calculate such abatement and will provide the Trustee with a certificate setting forth such calculation and the basis therefor.

Such abatement will continue for the period commencing with the date of interference resulting from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Site, ending with the substantial completion of the work of repair or replacement of the Site, or the portion thereof so damaged or destroyed; and the term of the Lease Agreement will be extended as provided therein, except that the term of the Lease Agreement will in no event be extended more than ten years beyond the Termination Date.

Abatement of Total Rent is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the District. In the event of any such partial damage or destruction or taking, the Lease Agreement will continue in full force and effect and the District waives any right to terminate the Lease Agreement by virtue of any such damage or destruction or taking.

Notwithstanding the foregoing, to the extent moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Trust Agreement, Rental Payments will not be abated as provided above, but rather, will be payable by the District as a special obligation payable solely from said funds and accounts.

## **Property Insurance**

Under the Lease Agreement, the District will maintain, or cause to be maintained, throughout the Term of the Lease Agreement, for and commencing on the periods set forth below the following insurance with insurers rated "A" or better by A.M. Best's Credit Ratings or through insurance provided through a joint powers authority ("JPA" or "JPA Program") below, all coverage on the Site described below.

Such insurance will consist of:

(a) A standard comprehensive general insurance policy or policies in protection of the Authority, its successors and assigns, and the District, and their members, directors, agents and employees. Said policy or policies must provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of construction on, or operation of, the Site. Said policy or policies must provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 (subject to a deductible clause of not to exceed \$50,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks.

(b) Insurance against loss or damage to the Site by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and such other hazards as are normally covered by such insurance (but excluding earthquake and flood). Such insurance must be in an amount equal to the full insurable value (without deduction for depreciation) of all structures constituting any part of the Site, (except that such insurance may be subject to a deductible clause of not to exceed \$100,000); provided, however, that in no event may such insurance be maintained in an aggregate amount (together with moneys in the Reserve Fund) less than the aggregate principal amount of Bonds outstanding at the time.

(c) Rental interruption insurance to cover loss, total or partial, of the use of the Site as the result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount sufficient to pay the total Lease Payments thereunder for a period of 24 months (using the two highest annual Lease Payments during the Term). If the District determines, based on a certification from an Insurance Consultant (defined below), that such insurance is not commercially available, the District may under such circumstances (notwithstanding (f) below) provide for a cash deposit (held by the Trustee), equal to the 24 months of Lease Payments (using the two highest annual Lease Payments during the Term) to satisfy the foregoing requirements. The Net Proceeds of such insurance will be paid to the Trustee for deposit in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

(d) Workers' compensation insurance for not less than the amounts required by applicable law to insure District employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof.

(e) A Title Insurance Policy insuring (i) the District's fee interest in the Site; (ii) the Authority's leasehold interest in the Site under the Site Lease; and (iii) the District's leasehold estate in the Site under the Lease Agreement, subject only to Permitted Encumbrances (any of which may be insured through an endorsement to such policy). The Title Insurance Policy must be in an amount equal to the entire unpaid principal

amount of the Bonds, and be issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners.

(f) For insurance provided through a JPA (except for title insurance, for which the District may not provide coverage through a JPA Program), the District must provide, or arrange to provide a certificate(s) or certifications as to all of the following:

(i) the JPA Program must be approved by a nationally recognized independent actuary, insurance company, or broker that has actuarial personnel experienced in the area of insurance for which the District is insuring through a JPA and employing accepted actuarial techniques, as may be designated by the District from time to time ("**Insurance Consultant**") (this subsection will not apply in the case of workers' compensation insurance coverage);

(ii) the JPA Program must include an actuarially sound segregated claims reserve fund (held by an independent trustee) out of which each claim will be paid; the JPA Program must include a claims processing and risk management program; the adequacy of such fund must be evaluated initially and on an annual basis by an Insurance Consultant; and any deficiencies in any claims reserve fund must be remedied in accordance with the recommendation of the Insurance Consultant;

(iii) if the JPA Program is discontinued, the actuarial soundness of its claims reserve fund, as determined by an Insurance Consultant, must be maintained;

(iv) the District must cause the Insurance Consultant to submit a written report, on or before [April 1], to the Trustee, setting forth a determination, employing accepted actuarial techniques, of an adequate amount of reserves for the next Fiscal Year to be maintained in the JPA Program trust fund; and

(v) amounts payable with respect to the JPA Program must not be subject to appropriation or abatement.

Certificates and/or endorsements evidencing annual renewal of the policies of insurance required under subsections (a) through (e) above (excluding subsection (d)) must be sent by the District to the Trustee at the address set forth in the Trust Agreement. The Authority will cooperate fully with the District at the expense of the District in filing any proof of loss with respect to any insurance policy maintained pursuant to this provision of the Lease Agreement and in the prosecution or defense of any prospective or pending condemnation proceeding with respect to the Site or any portion thereof.

***Application of Net Proceeds.*** The policies of insurance required by the Lease Agreement must provide that all proceeds thereunder will be payable to the Trustee pursuant to a lender's loss payable endorsement substantially in accordance with the form approved by the Insurance Services Office and the California Bankers Association and must require at least 30 days' prior written notice to the Trustee before expiration, cancellation or reduction of the coverage afforded thereby. The Net Proceeds of such insurance will be paid to the Trustee to be applied as provided in the Trust Agreement, or the Lease Agreement, as the case may be. If the Site is damaged or destroyed to such an extent that the use and possession of the Site as a whole is materially affected, the remaining Lease Payments due under the Lease Agreement will be abated in full and the Lease Agreement will thereupon be terminated, except as provided in the Lease Agreement.

Otherwise, (i) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such damage or destruction and the parties waive the benefit of any law to the contrary, and (ii) there will be a partial abatement of Lease Payments in order to reflect the crediting, if any, of Net Proceeds of insurance applied to redeem the Bonds pursuant to the Trust Agreement, but in no event will the resulting Lease Payments be less than the amount required for the payment of the principal and interest with respect to the principal amount as the same become due and payable.

The District will pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. The Trustee will not be responsible for the sufficiency of any insurance required under the Lease Agreement, and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee. The District will annually (during the month of July) cause to be delivered to the Trustee and to the Authority certification that the insurance policies required by the Lease Agreement are in full force and effect.

## DISTRICT FINANCIAL INFORMATION

### General Information

Formed in 1945, the District provides public education within an approximately 370 square mile area, serving the City of Santa Clarita and neighboring communities. The District is located in the Santa Clarita Valley in the northern part of the County of Los Angeles (the “**County**”). The District currently operates six comprehensive high schools, a continuation school, middle college high school, independent study school, a home school support program, six junior high schools, an adult school and a Regional Occupational Program. Enrollment for fiscal year 2016-17 was 26,822 students, and for fiscal year 2017-18 is approximately 22,659 students, which figures do not include enrollment in the independent charter schools within the boundaries of the District.

### Administration

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board of Trustees are held every two years, alternating between two and three available positions. The Board of Trustees acts as a committee of the whole for all matters concerning the District. All actions taken by the Board of Trustees are done in an appropriately noticed public meeting. The powers and duties of the Board include governance, executive, and judicial functions. These relate to the Board's own operations as a governing body and to all functions of the District.

Current members of the Board of Trustees, together with their office and the date their term expires, are listed below.

<b>Name</b>	<b>Position</b>	<b>Term Expires</b>
Steven M. Sturgeon	President	December 2020
Bob Jensen	Clerk	December 2018
Joe Messina	Member	December 2020
Linda Storli	Assistant Clerk	December 2018
Dr. Cherise Moore	Member	December 2020

The Superintendent is appointed by the Board and is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators.

## Recent Enrollment Trends

The following table shows recent historical and projected enrollment for the District.

### ANNUAL ENROLLMENT<sup>(1)</sup> Fiscal Years 2005-06 through 2018-19 (Projected)

School Year	Enrollment	% Change
2005-06	23,439	--
2006-07	24,318	3.8%
2007-08	25,243	3.8
2008-09	25,629	1.5
2009-10	26,237	2.4
2010-11	26,160	(0.3)
2011-12	26,449	1.1
2012-13	26,373	(0.3)
2013-14	25,640	(2.8)
2014-15	26,983	5.2
2015-16	27,155	0.6
2016-17	26,822	(1.2)
2017-18 <sup>(2)</sup>	26,558	(0.9)
2018-19 <sup>(2)</sup>	22,578*	--

(1) Includes students enrolled in independent charter schools within the boundaries of the District.

(2) Estimates and Projections as set forth in Second Interim Report for fiscal year 2017-18.

Source: California Department of Education, Educational Demographics Unit through 2016-17; District for 2017-18 through 2018-19 Estimates and Projections.

\* The enrollment projection for the year 2018-19 does not reflect enrollment in the independent charter schools within the boundaries of the District. Enrollment for the other years includes enrollment in the independent charter schools within the boundaries of the District.

## Employee Relations

As of March 15, 2018, the District employed 1,072.1 full time equivalent ("FTE") certificated employees, 749.4 FTE classified employees and 90 management/Supervisor/Confidential FTE employees. For fiscal year 2017-18, the total certificated and classified payrolls are projected to be approximately \$102,005,270. and \$37,800,538, respectively. District employees are represented by employee bargaining units as follows:

Name of Bargaining Unit	Number of Employees Represented	Current Contract Expiration Date
California School Employees Association, Chapter 349	813	June 30, 2018*
Hart District Teachers Association	1,075	June 30, 2020

\* The District continues to operate under the expired contract while a new contract is being negotiated.

Source: William S. Hart Union High School District.

## Education Funding Generally

School districts in California receive operating income primarily from two sources: the State funded portion which is derived from the State's general fund, and a locally funded portion, being the district's share of the one percent general ad valorem tax levy authorized by the California Constitution. As a result, decreases or deferrals in education funding by the State could significantly affect a school district's revenues and operations.

From 1973-74 to 2012-13, California school districts operated under general purpose revenue limits established by the State Legislature. In general, revenue limits were calculated for each school district by multiplying (1) the average daily attendance ("**ADA**") for such district by (2) a base revenue limit per unit of ADA. The revenue limit calculations were adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type. Funding of the District's revenue limit was provided by a mix of local property taxes and State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the District's revenue limit and its local property tax revenues. Districts which had local property tax revenues which exceeded its revenue limit entitlement were deemed "Basic Aid District" and received full funding from local property tax revenues, and were entitled to keep those tax revenues which exceeded its revenue limit funding entitlement.

The fiscal year 2013-14 State budget package replaced the previous K-12 finance system with a new formula known as the Local Control Funding Formula (the "**LCFF**"). Under the LCFF, revenue limits and most state categorical programs were eliminated. School districts instead receive funding based on the demographic profile of the students they serve and gain greater flexibility to use these funds to improve outcomes of students. The LCFF creates funding targets based on student characteristics. For school districts and charter schools, the LCFF funding targets consist of grade span-specific base grants plus supplemental and concentration grants that reflect student demographic factors. The LCFF includes the following components:

- A base grant for each local education agency per unit of ADA, which varies with respect to different grade spans. The base grant is \$2,375 more than the average revenue limit provided prior to LCFF implementation. The base grants will be adjusted upward each year to reflect cost-of-living increases. In addition, grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in grades K-3 and the provision of career technical education in grades 9-12.
- A 20% supplemental grant for English learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 50% of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.



- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

The LCFF was implemented for fiscal year 2013-14 and will be phased in gradually. Beginning in fiscal year 2013-14, an annual transition adjustment was required to be calculated for each school district, equal to each district's proportionate share of the appropriations included in the State budget (based on the percentage of each district's students who are low-income, English learners, and foster youth ("**Targeted Students**")), to close the gap between the prior-year funding level and the target allocation at full implementation of LCFF. In each year, districts will have the same proportion of their respective funding gaps closed, with dollar amounts varying depending on the size of a district's funding gap.

Funding levels used in the LCFF "Target Entitlement" calculations for fiscal year 2017-18 are set forth in the following table. Most school districts and charter schools will receive less than the LCFF Target because LCFF is being phased in. Until the LCFF is fully implemented (currently expected in fiscal year 2018-19), districts will receive an entitlement known as the LCFF Transition Entitlement.

**Fiscal Year 2017-18 Base Grant\* Under LCFF by Grade Span  
(Targeted Entitlement)**

<b>Grade Span</b>	<b>2016-17 Base Grant Per ADA</b>	<b>2017-18 COLA (1.56%)</b>	<b>Grade Span Adjustments (K-3: 10.4%; 9-12: 2.6%)</b>	<b>2017-18 Base Grant/Adjusted Base Grant Per ADA</b>
K-3	\$7,083	\$110	\$748	\$7,941
4-6	\$7,189	\$112	n/a	7,301
7-8	\$7,403	\$115	n/a	7,518
9-12	\$8,578	\$134	\$227	8,939

\*Does not include supplemental and concentration grant funding entitlements.  
Source: California Department of Education.

The new legislation included a "hold harmless" provision which provided that a district or charter school would maintain total revenue limit and categorical funding at least equal to its 2012-13 level, unadjusted for changes in ADA or cost of living adjustments.

The LCFF includes an accountability component. Districts are required to increase or improve services for English language learners, low income, and foster youth students in proportion to supplemental and concentration grant funding received. All school districts, county offices of education, and charter schools are required to develop and adopt local control and accountability plans, which identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate.

County superintendents review and provide support to the districts under their jurisdiction, and the Superintendent of Public Instruction performs a corresponding role for county offices of education. In addition, the 2013-14 Budget created the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. Under the LCFF and related legislation, the State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students,

determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

### **District Accounting Practices**

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts.

District accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The Governmental Accounting Standards Board ("**GASB**") published its Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" on June 30, 1999. Statement No. 34 provides guidelines to auditors, state and local governments and special purpose governments such as school districts and public utilities, on new requirements for financial reporting for all governmental agencies in the United States. Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting, (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

### **Financial Statements**

**General.** The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2017 Audited Financial Statements were prepared by Vavrinek, Trine, Day & Company, LLP, Rancho Cucamonga, California and are attached hereto as Appendix C. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the District Business Office, William S. Hart Union High School District, 21380 Centre Pointe Parkway, Santa Clarita, California 91350. The District has not requested, and the auditor has not provided, any review or update of such Financial Statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. This District may impose a charge for copying, mailing and handling.

**General Fund Revenues, Expenditures and Changes in Fund Balance.** The District's General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. The following table shows the audited income and expense statements for the District's General Fund for the fiscal years 2012-13 through 2016-17.

**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Fiscal Years 2012-13 through 2016-17 (Audited)<sup>(1)</sup>**

	<b>Audited 2012-13</b>	<b>Audited 2013-14</b>	<b>Audited 2014-15</b>	<b>Audited 2015-16</b>	<b>Audited 2016-17</b>
<b>SOURCES</b>					
Revenue Limit/LCFF					
Sources	\$132,558,618	\$151,010,991 (2)	\$162,279,194	\$178,844,315	\$185,059,117
Federal Revenue	7,475,488	6,893,575	7,060,697	6,078,904	5,994,635
Other State Revenue	35,486,935	27,677,319	14,903,024	27,833,590	24,186,578
Other Local Revenue	4,489,536	4,788,752	16,397,526	18,907,079	17,425,505
Total Revenue Limit	180,010,577	190,370,637	200,640,441	231,663,888	232,665,835
<b>EXPENDITURES</b>					
Instruction	103,431,309	110,619,486	118,957,103	124,669,555	130,603,157
Instruction – Related					
Services	20,139,606	20,650,809	22,709,337	24,208,894	26,556,429
Pupil Services	19,727,911	21,848,269	23,762,092	25,768,114	27,887,345
Ancillary Services	1,189,688	1,181,805	1,706,315	1,360,826	1,476,838
General Administration	12,655,257	13,855,210	17,051,318	17,271,178	17,642,044
Plant Services	20,114,634	20,935,792	22,210,463	22,654,472	23,442,951
Other Outgo	462,863	372,756	79,367	591,767	604,454
Debt Service					
Principal	--	237,498	220,426	193,678	564,753
Interest	121,173	--	2,342	29,089	153,583
Total Expenditures	177,842,441	189,701,625	206,698,763	216,747,573	228,931,554
Excess of (Deficiency)					
Revenues Over (Under)					
Expenditures	2,168,136	669,012	(6,058,322)	14,916,315	3,734,281
<b>OTHER FINANCING SOURCES</b>					
Operating Transfers In	--	42,832	--	--	--
Operating Transfers Out	(1,706,253)	(1,831,754)	--	(4,747,195)	(2,052,138)
Other sources (uses)	--	1,107,426	--	--	--
Total Other Financing					
Sources (uses)	(1,706,253)	(681,496)	--	(4,747,195)	(2,052,138)
NET Change in Fund					
Balance	461,883	(12,484)	(6,058,322)	10,169,120	1,682,143
Fund Balance, July 1	44,339,007	44,800,890	44,788,406	38,350,084*	48,819,204
Fund Balance, June 30	\$44,800,890	\$44,788,406	\$38,730,084	48,819,204	\$50,501,347

(1) Totals may not sum due to rounding.

(2) First year of LCFF implementation.

\*Beginning fund balance as restated; the prior period restatement showed an \$80,000 deficiency which has been factored into the restated figure.

Source: William S. Hart Union High School District - Audited Financial Statements.

## District Budget and Interim Financial Reporting

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

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

The County Superintendent must review and approve or disapprove the budget no later than August 15. The County Superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. If the budget is disapproved, it is returned to the District with recommendations for revision. The District is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file it with the County Superintendent no later than September 8. Pursuant to State law, the County Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved. After approval of an adopted budget, the school district's administration may submit budget revisions for governing board approval.

Subsequent to approval, the County Superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the County Superintendent determines that a district cannot meet its current or subsequent year obligations, the County Superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the County Superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) after also consulting with the district's board, develop and impose revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the County Superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

A State law adopted in 1991 (“**A.B. 1200**”) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that 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 is deemed unable to meet its financial obligations for the remainder of the current fiscal year or the 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 two subsequent fiscal years.

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

***District's Budget Approval/Disapproval and Certification History.*** During the past five years, each of the District's adopted budgets have been approved by the County Superintendent and the District has received positive certifications on all of its interim reports

Copies of the District's budget, interim reports and certifications may be obtained upon request from the District at: William S. Hart Union High School District, 21380 Centre Pointe Parkway, Santa Clarita, California 91350. The District may impose charges for copying, mailing and handling.

**District's Fiscal Year 2017-18 General Fund Budget and Projections.** The following table shows the income and expense statements for the District's General Fund for fiscal year 2017-18 (Budget and Second Interim projections).

**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**Fiscal Year 2017-18 (Adopted Budget and Second Interim)<sup>(1)</sup>**

	<b>Budgeted Fiscal Year 2017-18</b>	<b>Second Interim Fiscal Year 2017-18<sup>(2)</sup></b>
<u>Revenues</u>		
LCFF Sources <sup>(3)</sup>	\$187,994,104	\$190,222,848
Federal revenues	5,744,200	8,128,238
Other state revenues	11,812,404	16,003,736
Other local revenues	13,860,152	15,325,507
Total Revenues	219,410,860	229,680,329
<u>Expenditures</u>		
Certificated salaries	102,050,113	102,005,270
Classified salaries	37,929,107	37,800,538
Employee benefits	52,112,498	52,009,775
Books and supplies	8,233,957	11,743,696
Services and other operating expenditures	25,336,813	28,543,170
Capital outlay	711,470	956,735
Other outgo (excluding indirect costs)	1,222,354	1,224,272
Other outgo – transfers of indirect costs	(230,353)	(184,485)
Total expenditures	227,365,959	234,098,972
Excess of revenues over/(under) expenditures	(7,955,099)	(4,418,643)
<u>Other financing sources (Uses)</u>		
Operating transfers in	0	605,752
Operating transfers out <sup>(4)</sup>	(2,398,245)	6,329,801
Total other financing sources (uses)	(2,398,245)	(5,724,049)
Net change in fund balance	(10,353,344)	(10,142,692)
Fund balance, July 1	35,172,329	35,172,329
Fund balance, June 30	\$24,818,985	\$25,029,637

(1) Totals may not sum due to rounding.

(2) Projected year totals.

(3) LCFF commenced in fiscal year 2013-14.

(4) Transfers to other District funds.

Source: William S. Hart Union High School District Second Interim Report for Fiscal Year 2017-18.

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

In connection with legislation adopted in connection with the State's fiscal year 2014-15 Budget ("SB 858"), the Education Code was amended to provide that, beginning in fiscal year 2015-16, if a district's proposed budget includes a local reserve above the minimum recommended level, the governing board must provide the information for review at the annual public hearing on its proposed budget. In addition, SB 858 included a provision, which became

effective upon the passage of Proposition 2 at the November 4, 2014 statewide election, which limits the amount of reserves which may be maintained at the District level. Specifically, the legislation, among other things, enacted Education Code Section 42127.01, which became operative December 15, 2014, and provides that in any fiscal year immediately after a fiscal year in which a transfer is made to the State's Public School System Stabilization Account (the Proposition 98 reserve), a school district may not adopt a budget that contains a reserve for economic uncertainties in excess of twice the applicable minimum recommended reserve for economic uncertainties established by the State Board (for school districts with ADA over 400,000, the limit is three times the amount). Exemptions can be granted by the County Superintendent under certain circumstances.

On October 11, 2017, the Governor signed new legislation ("**SB 751**") amending Section 42127.01 of the Education Code, effective January 1, 2018. SB 751 raises the reserve cap established under SB 858 to no more than 10% of a school district's combined assigned or unassigned ending general fund balance and provides that the reserve cap will be triggered only if there is a minimum balance of 3% of the Proposition 98 reserve. Basic aid school districts and small districts with 2,500 or fewer ADA are exempt from the reserve cap. The District cannot predict if or when the reserve cap enacted by SB 751 will be triggered and what impact it may have on the District's reserves.

#### **Attendance - Revenue Limit and LCFF Funding**

As described herein, prior to fiscal year 2013-14, school districts in California derived most State funding based on a formula which considered a revenue limit per unit of average daily attendance ("**ADA**"). With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following two tables set forth historical revenue limit funding for the District through fiscal year 2016-17.

#### **AVERAGE DAILY ATTENDANCE, ENROLLMENT AND BASE REVENUE LIMIT<sup>(1)</sup>** **Fiscal Years 2014-15 Through 2016-17**

<b>Fiscal Year</b>	<b>Average Daily Attendance</b>	<b>Enrollment</b>	<b>Base Revenue Limit Per Unit of A.D.A.</b>
2014-15	21,652	22,667	\$7,494.88
2015-16	21,459	22,583	8,334.23
2016-17	21,358	22,437	8,664.63

(1) Does not include independent charter schools within the boundaries of the District.

Source: William S. Hart Union High School District Audited Financial Reports for fiscal years 2014-15 through 2016-17 for A.D.A.; William S. Hart Union High School District for enrollment and base revenue limit.

**Attendance and LCFF.** The following table sets forth the District's historical and projected ADA and total LCFF Entitlement funding for fiscal years 2013-14 through 2018-19.

**ADA AND LCFF ENTITLEMENT<sup>(1)</sup>**  
**Fiscal Years 2013-14 through 2016-17 (Projected)**

<b>Fiscal Year</b>	<b>ADA</b>	<b>Total LCFF Entitlement</b>
2013-14	21,663	\$151,010,991
2014-15	21,652	162,279,194
2015-16	21,459	178,844,315
2016-17	21,358	185,059,117
2017-18*	21,711	190,222,848
2018-19*	21,635	198,681,776

(1) Does not include independent charter schools within the boundaries of the District.

\* Projected.

Source: William S. Hart Union High School District.

## Revenue Sources

The District categorizes its general fund revenues into four sources, being LCFF, Federal Revenues, Other State Revenues and Local Revenues. Each of these revenue sources is described below.

**LCFF Sources.** District funding is provided by a mix of (1) local property taxes and (2) State apportionments of funding under the LCFF. Generally, the State apportionments will amount to the difference between the District's LCFF funding entitlement and its local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. Historically, the more local property taxes a district received, the less State equalization aid it is entitled to. Furthermore, if a school district's share of local property tax revenues exceeded the revenue limit, the school district was deemed a "Basic Aid" district, and entitled to keep the full share of local property taxes, even if they exceeded the revenue limit which would have been provided through State funding.

For school districts which were "Basic Aid" prior to implementation of the LCFF, provided that the per pupil funding targets under LCFF, including economic recovery targets, are met or exceeded by local property tax revenues, such districts are entitled to retain their status as Basic Aid and keep their full local property tax revenue entitlement. The threshold for Basic Aid status under the LCFF, however, is higher than under the prior funding formula, resulting in some district



falling out of Basic Aid status as the result of the implementation of the LCFF. Accountability measures contained in the LCFF must be implemented by all districts.

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

**Other State Revenues.** As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives other State revenues.

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

For additional discussion of State aid to school districts, see "-State Funding of Education."

**Other Local Revenues.** The District receives additional local revenues from interest earnings and other local sources. Other local revenues comprise approximately 8% (or approximately \$16.4 million) of the District's general fund budgeted revenues for fiscal year 2014-15.

## Historic Assessed Valuations

The following table shows a 20-year history of assessed valuations of property within the District.

### HISTORIC ASSESSED VALUATIONS

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
1998-99	11,460,892,735	36,101,566	683,713,243	12,180,707,544
1999-00	12,551,034,966	30,543,259	776,019,114	13,357,597,339
2000-01	14,140,792,979	39,182,173	710,116,866	14,890,092,018
2001-02	15,650,563,708	35,197,209	857,767,541	16,543,528,458
2002-03	17,467,311,611	35,126,949	837,206,812	18,339,645,372
2003-04	19,819,886,817	81,416,271	810,063,605	20,711,366,693
2004-05	22,618,445,494	51,343,788	799,911,669	23,469,700,951
2005-06	27,083,336,746	49,531,382	847,997,711	27,980,865,839
2006-07	30,588,748,336	46,969,217	949,649,134	31,585,366,687
2007-08	33,414,651,379	39,053,825	1,051,994,426	34,505,699,630
2008-09	34,966,897,765	12,970,609	1,230,651,208	36,210,519,582
2009-10	32,883,723,795	39,221,595	1,243,057,723	34,166,003,113
2010-11	32,577,925,405	42,286,023	1,166,113,509	33,786,324,937
2011-12	32,749,890,834	41,967,599	1,113,366,851	33,905,225,284
2012-13	32,133,487,830	41,967,599	1,151,190,716	33,326,646,145
2013-14	32,904,001,822	9,410,995	1,142,324,709	34,055,737,526
2014-15	35,502,492,273	7,701,513	1,159,889,415	36,670,083,201
2015-16	37,381,038,670	4,764,954	1,147,782,943	38,533,586,567
2016-17	39,194,716,644	5,090,240	1,100,453,770	40,300,260,654
2017-18	40,807,273,935	10,322,510	1,118,708,960	41,936,305,405

Source: California Municipal Statistics, Inc.

As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation may result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and natural disasters such as earthquakes, fires, floods and droughts.

## Charter Schools

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

There are currently four charter schools operating within the territory of the District: Albert Einstein Academy for Letters, Arts and Sciences, Santa Clarita Valley International, Opportunities

for Learning-Santa Clarita and Mission View Public. The District can make no representation as to whether enrollment at such charter school may increase at the expense of District enrollment in future years, whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's ADA or finances in future years.

## District Retirement Programs

Qualified employees of the District are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**"). Both STRS and PERS are operated on a Statewide basis. *The information set forth below regarding the STRS and PERS programs, other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.*

**Implementation of GASB Nos. 68 and 71.** Commencing with fiscal year ended June 30, 2015, the District implemented the provisions of GASB Statement Nos. 68 and 71 which require certain new pension disclosures in the notes to its audited financial statements commencing with the audit for fiscal year 2014-15. Statement No. 68 generally requires the District to recognize its proportionate share of the unfunded pension obligation for STRS and PERS by recognizing a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. As a result of the implementation of GASB Statement Nos. 68 and 71, the District may have to reflect a restatement of its beginning net position as of July 1, 2014. See "APPENDIX C - Audited Financial Statements of the District For Fiscal Year Ending June 30, 2017" and particularly Note 11.

**STRS.** All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries under a defined benefit program. Benefit provisions and contribution amounts are established by State statutes, as legislatively amended. The program is funded through a combination of investment earnings and statutorily set contributions from three sources: employees, employers and the State. The District's employer contributions to STRS for recent fiscal years are set forth in the following table.

### **STRS CONTRIBUTIONS Fiscal Years 2013-14 through 2017-18 (Projected)**

Fiscal Year	Amount
2013-14	7,280,450
2014-15	8,337,804
2015-16	9,984,240
2016-17	12,428,817
2017-18*	14,590,436

*\*Projected in Second Interim Report.*

*Source: William S. Hart Union High School District.*

Historically, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. In recent years, the combination of

investment earnings and statutory contributions were not sufficient to pay actuarially required amounts. As a result, the STRS defined benefit program showed an estimated unfunded actuarial liability of approximately \$96.7 billion as of June 30, 2016 (the date of the last actuarial valuation). In connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"), which represents a legislative effort to address the unfunded liabilities of the STRS pension plan. AB 1469 addressed the funding gap by increasing contributions by employees, employers and the State. In particular, employer contribution rates are scheduled to increase through at least fiscal year 2020-21, from a contribution rate of 8.88% in fiscal year 2013-14 to 19.1% in fiscal year 2020-21. Thereafter, employer contribution rates will be determined by the STRS board to reflect the contribution required to eliminate unfunded liabilities by June 30, 2046.

The District's employer contribution rates for fiscal years 2014-15, 2015-16, and 2016-17 were 8.88%, 10.73%, and 13.888%, respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2017-18 through fiscal year 2019-20 are set forth in the following table.

**PROJECTED EMPLOYER CONTRIBUTION RATES (STRS)**  
**Fiscal Years 2017-18 through 2019-20**

<b>Fiscal Year</b>	<b>Projected Employer Contribution Rate<sup>(1)</sup></b>
2017-18	15.500%
2018-19	17.100
2019-20	18.600

(1) Expressed as a percentage of covered payroll.  
Source: AB 1469

**PERS.** All full-time and some part-time classified employees participate in PERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State. PERS provides retirement, disability, and death benefits to plan members and beneficiaries. The District is part of a cost-sharing pool within PERS known as the "Schools Pool." Benefit provisions are established by State statutes, as legislatively amended. Contributions to PERS are made by employers and employees. Each fiscal year, the District is required to contribute an amount based on an actuarially determined employer rate. The District's employer contributions to PERS for recent fiscal years are set forth in the following table.

**PERS CONTRIBUTIONS**  
**Fiscal Years 2013-14 through 2017-18 (Projected)**

<b>Fiscal Year</b>	<b>Amount</b>
2013-14	3,396,361
2014-15	3,842,830
2015-16	3,867,236
2016-17	4,688,547
2017-18*	5,689,556

\*Projected in Second Interim Report.  
Source: William S. Hart Union High School District.

Like the STRS program, the PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$23.6 billion as of June 30, 2017 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. The new rates and underlying assumptions, which were aimed at eliminating the unfunded liability of PERS in approximately 30 years, were implemented for school districts beginning in fiscal year 2016-17, with the costs spread over 20 years with increases to be phased in over the first five years.

The District's employer contribution rates for fiscal years 2015-16, 2016-17, and 2017-18 were 11.847%, 13.888%, and 15.531% respectively. Projected employer contribution rates for school districts (including the District) for fiscal year 2018-19 through fiscal year 2020-21 are set forth in the following table.

**PROJECTED EMPLOYER CONTRIBUTION RATES (PERS)  
Fiscal Years 2018-19 through 2020-21**

Fiscal Year	Projected Employer Contribution Rate <sup>(1)</sup>
2018-19	18.062%
2019-20	20.800
2020-21	23.500

(1) Expressed as a percentage of covered payroll.  
Source: PERS

**California Public Employees' Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which impacted various aspects of public retirement systems in the State, including the STRS and PERS programs. In general, PEPRA (i) increased the retirement age for public employees depending on job function, (ii) capped the annual pension benefit payouts for public employees hired after January 1, 2013, (iii) required public employees hired after January 1, 2013 to pay at least 50% of the costs of their pension benefits (as described in more detail below), (iv) required final compensation for public employees hired after January 1, 2013 to be determined based on the highest average annual pensionable compensation earned over a period of at least 36 consecutive months, and (v) attempted to address other perceived abuses in the public retirement systems in the State. PEPRA applies to all public employee retirement systems in the State, *except* the retirement systems of the University of California, and charter cities and charter counties whose pension plans are not governed by State law. PEPRA's provisions went into effect on January 1, 2013 with respect to new State, school, and city and local agency employees hired on or after that date; existing employees who are members of employee associations, including employee associations of the District, have a five-year window to negotiate compliance with PEPRA through collective bargaining.

PERS has predicted that the impact of PEPRA on employees and employers, including the District and other employers in the PERS system, will vary, based on each employer's current level of benefits. As a result of the implementation of PEPRA, new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as

current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn.

With respect to the STRS pension program, employees hired after January 1, 2013 will pay the greater of either (1) fifty percent of the normal cost of their retirement plan, rounded to the nearest one-quarter percent, or (2) the contribution rate paid by then-current members (i.e., employees in the STRS plan as of January 1, 2013). The member contribution rate could be increased from this level through collective bargaining or may be adjusted based on other factors. Employers will pay at least the normal cost rate, after subtracting the member's contribution.

The District is unable to predict the amount of future contributions it will have to make to PERS and STRS as a result of the implementation of PEPRA, and as a result of negotiations with its employee associations, or, notwithstanding the adoption of PEPRA, resulting from any legislative changes regarding the PERS and STRS employer contributions that may be adopted in the future.

**Additional Information.** Additional information regarding the District's retirement programs is available in Note 10 to the District's audited financial statements attached hereto as APPENDIX C. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, [www.calstrs.com](http://www.calstrs.com) and [www.calpers.ca.gov](http://www.calpers.ca.gov), respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter for accuracy or completeness.*

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

**The Plan Generally.** The District offers a post-employment benefits plan (the "Plan"). The Plan is a single-employer defined benefit healthcare plan administered by the District. The District provides health benefits to approximately 1,890 eligible active employees and 320 retirees through the CalPERS Health Program, as of the July 1, 2015 actuarial study. In general, the District provides a contribution towards health benefits to eligible retirees and their eligible dependents to age 65 up to a monthly maximum. The District's maximum contribution varies by employee groups and upon the retiree's attainment of age 65 reduces to the CalPERS minimum required contribution. Eligibility for retiree health benefits requires an employee to retire from the District on or after age 55 with at least 10 years of service. Classified retirees hired on or after July 1, 2013 shall have been employed by the District for a minimum of 15 calendar years.

**Contribution Information.** The contribution requirements of Plan members and the District are established and may be amended by the District and District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015, the District contributed \$1,938,182 to the Plan, all of which was used for current premiums.

As of June 30, 2015, the District has not established a plan or equivalent that contains an irrevocable transfer of assets dedicated to providing benefits to the retirees in accordance with the terms of the plan and that are legally protected from creditors.

**Annual OPEB Cost and Net OPEB Obligation.** The District's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of Government Accounting Standards Board Statement No. 45 ("**GASB 45**"). GASB 45 requires local government employers who provide OPEB as part of the compensation offered to employees to recognize the expense and related liabilities and assets in their financial statements. The District implemented GASB 45 for fiscal year ending June 30, 2009.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities ("**UAAL**") over a period not to exceed thirty years.

**OPEB Funded Status and Funding Progress.** The actuarial valuation of the postretirement welfare benefits is available directly from the District. Based on the latest actuarial valuation as of July 1, 2015 (valuation date), the District's post-employment benefits other than pension program is as follows.

#### **SCHEDULE OF OPEB FUNDING PROGRESS**

<b>Fiscal Year Ending June 30</b>	<b>Annual OPEB Cost</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation</b>
2015	\$9,887,312	20%	\$38,239,202
2016	9,887,312	22	45,766,152
2017	9,887,312	21	53,377,371

*Source: William S. Hart Union High School District Audited Financial Statement for Fiscal Year 2014-15.*

**Actuarial Methods and Assumptions.** As described in the District's 2016-17 Audited Financial Statements (Note 14), the actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the entry age normal method was used. The actuarial assumptions included an inflation factor of 2.8%, and a 4.5% discount rate. For medical costs a 7% trend rate was used, while a 5% trend rate was used for dental and vision costs. Finally, payroll is assumed to increase 3% per year. A level percentage of payroll method was used to allocate amortization cost by year. The valuation used a 30 year amortization period. The District chose to use a closed amortization period, with 22 years remaining at July 1, 2017.

The funded status of the plan as of the most recent actuarial evaluation consists of the following:

### OPEB FUNDED STATUS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability- Entry Age Normal	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as Percentage of Covered Payroll
July 1, 2015	\$ --	\$95,284,774	\$95,284,774	0%	\$146,591,960	65%

Source: Alvord Unified School District.

See "APPENDIX C - Audited Financial Statements of the District For Fiscal Year Ending June 30, 2017- Note 13."

### Existing Debt Obligations

**General.** In addition to the District's ongoing obligations with respect to retirement plans and OPEB described above, the District has outstanding general obligation bond indebtedness, as well as certificates of participation payable from the general fund and an energy retrofit agreement. The District has never defaulted on the payment of principal or interest on any of its long-term indebtedness. See APPENDIX C for further information regarding District's long-term debt.

A schedule of the District's outstanding long-term obligations, with more detail in the following section regarding outstanding bonded indebtedness, is as follows:

### SUMMARY OF LONG TERM DEBT

Long-Term Debt	Balance June 30, 2017	Due in One Year
Total general obligation bonds <sup>(1)</sup>	\$435,666,267	\$10,661,841
Certificates of participation	6,000,000	--
Capital leases	4,398,589	594,464
Compensated absences	1,131,286	--
Net OPEB obligation	53,377,371	--
Net pension liability	150,755,276	--

*[(1) Amounts do not reflect the refunding of a portion of the 2009 Series A Bonds with proceeds of the Bonds or debt service payments made in 2015. See "PLAN OF FINANCE" in the Official Statement.]*  
Source: William S. Hart Union High School District Audited Financial Report for fiscal year 2016-17

**General Obligation Bonds.** The District has outstanding general obligation bonds secured by ad valorem taxes upon all property subject to taxation by the District, as more particularly described below.

**2001 GO Bond Election.** At an election held November 6, 2001, the voters authorized the District to issue and sell \$158,000,000 of principal amount of general obligation bonds to finance the addition and modernization of school facilities. Two series of bonds were issued under this authorization: the Series A Bonds, which have been refunded in full, and the Series B Bonds, which are currently outstanding.



2008 GO Bond Election. In an election held November 4, 2008, the voters authorized the District to issue and sell \$300,000,000 of principal amount of general obligation bonds to finance the addition and modernization of school facilities. The District has issued three series of bonds under this authorization.

2012 Refunding GO Bonds. On March 7, 2012, the District issued \$48,945,000 of general obligation refunding bonds in order to advance refund the Election of 2001, Series A bonds.

2016 Refunding GO Bonds. On June 30, 2016, the District issued \$26,735,000 of general obligation refunding bonds in order to advance refund the Election of 2008, Series A Bonds.

#### **SUMMARY OF OUTSTANDING GENERAL OBLIGATION BOND DEBT**

<b>GO Bond Issue</b>	<b>Date Issued</b>	<b>Final Maturity</b>	<b>Original Issue Amount</b>	<b>Principal Amount Outstanding (June 30, 2017) <sup>(3)</sup></b>
<u>2001 Election Bonds</u>				
Series B (2005) <sup>(1)</sup>	June 10, 2005	Sep. 1, 2029	\$87,996,106	\$80,121,540
<u>2008 Election Bonds</u>				
Series A (2009) <sup>(1)(2)</sup>	June 10, 2009	Aug. 1, 2033	75,174,766	\$74,552,992
Series B (2011) <sup>(1)</sup>	Nov. 30, 2011	Aug. 1, 2036	40,567,734	\$50,097,107
<u>Refunding Bonds</u>				
2012 Refunding	March 7, 2012	Sep. 1, 2027	48,945,000	\$42,935,000
2016 Refunding	June 30, 2016	Aug. 1, 2025	26,735,000	26,100,000
<u>2008 Election Bonds</u>				
Series C (2013) <sup>(1)</sup>	Feb. 23, 2013	Aug. 1, 2038	168,280,123	\$161,859,628

<sup>(1)</sup> Issued as current interest and capital appreciation bonds.

<sup>(2)</sup> Certain maturities will be refunded and defeased with the net proceeds of the Bonds.] See "FINANCING PLAN."

<sup>(3)</sup> Includes accreted interest on the capital appreciation bonds.

Source: William S. Hart Union High School District.

See "DEBT SERVICE SCHEDULES" in the main body of the Official Statement for the scheduled debt service on the District's outstanding general obligation bonds.

**Community Facilities District/Joint School Financing Authorities Related Debt.** The District's community facilities district special tax bonds are payable solely from special taxes approved by the eligible voters of the applicable community facilities district, and levied within the boundaries of such district. The District's joint school financing authority issued Refunding Revenue Bonds in 2005, 2013, and again in 2015.

The table below sets forth the debt service payments on the outstanding community facilities district and joint school financing authority debt as of June 30, 2018.

**SUMMARY OF OUTSTANDING COMMUNITY FACILITIES DISTRICT/  
JOINT SCHOOL FINANCING AUTHORITIES DEBT**

Fiscal Year Ending June 30	Principal	Interest	Total
2018	1,570,000	2,031,370	3,601,370
2019	1,675,000	1,980,282	3,655,282
2020	1,430,000	1,926,326	3,356,326
2021-2025	8,805,000	8,719,537	17,524,537
2026-2030	12,120,000	6,606,051	18,726,051
2031-2035	16,140,000	3,229,188	19,369,188
2036-2037	5,050,000	197,663	5,247,663
Total:	\$49,570,000	\$28,897,298	\$78,267,298

**Capital Leases.** On February 15, 2014, the District entered into a capital lease with option to purchase for school buses, with annual payments in July of each year, with the principal maturing through 2018. Further minimum lease payments are as follows:

Fiscal Year Ending June 30	Lease Payment
2018	227,768
Total Minimum Lease Payments	683,304
Less amount representing interest	(33,802)
Present value of minimum lease payments	\$649,502

**Investment of District Funds**

In accordance with Government Code Section 53600 *et seq.*, the Los Angeles County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

**Effect of State Budget on Revenues**

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

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures [(see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below)], the

condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding.

## STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

### State Funding of Education

**General.** The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts are revenues under the LCFF, which are a combination of State funds and local property taxes (see "DISTRICT FINANCIAL INFORMATION - Education Funding Generally" above). State funds typically make up the majority of a district's LCFF allocation, although Basic Aid school districts derive most of their revenues from local property taxes. School districts also receive substantial funding from the State for various categorical programs.

*The following information concerning the State's budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the Underwriter or the County is responsible for the information relating to the State's budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer's Office.*

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

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each house of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each house of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (including for K-14 education) must be approved by a majority vote in each house of the Legislature, unless such appropriations require tax increases, in which case they must be approved by a two-thirds vote of each house of the Legislature, and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

### Recent State Budgets

Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. *The references to Internet*

*websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading “Bond Information”, posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.
- The California State Treasurer’s Office Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading “Financial Information”, posts the State’s audited financial statements. In addition, the Financial Information section includes the State’s Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, and Litigation from the State’s most current Official Statement, which discusses the State budget and its impact on school districts.
- The California Department of Finance’s Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget”, includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst’s Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst’s Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the heading “Subject Area – Budget (State)”.

***Prior Years’ Budgeting Techniques.*** Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools until a later date in the fiscal year or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. Although the fiscal year 2017-18 State budget is balanced and projects a balanced budget for the foreseeable future, largely attributable to the additional revenues generated due to the passage of Proposition 30 at the November 2, 2012 statewide election and Proposition 55 at the November 8, 2016 statewide election, there can be no certainty that budget-cutting strategies such as those used in recent years will not be used in the future should the State budget again be stressed and if projections included in such budget do not materialize.

***2013-14 State Budget: Significant Change in Education Funding.*** As described previously herein, the 2013-14 State Budget and its related implementing legislation enacted significant reforms to the State’s system of K-12 education finance with the enactment of the LCFF. Significant reforms such as the LCFF and other changes in law may have significant impacts on the District’s finances.

## 2017-18 Adopted State Budget

On June 27, 2017, the Governor signed the 2017-18 State budget (the “**2017-18 State Budget**”) into law. The 2017-18 State Budget calls for the spending of \$125.1 billion from the general fund, \$54.9 billion from special funds and \$3.3 billion from bond funds. The 2017-18 State Budget includes a funding increase of \$3.1 billion for K-14 education, an expanded tax credit for low-wage workers and puts an additional \$1.8 billion into the State’s budget stabilization reserve, bringing the rainy-day fund balance to \$8.5 billion, or 66% of the constitutional target. Significant features of the 2017-18 Budget include:

- total funding of \$92.5 billion for K-12 education programs, including an increase in funding of \$1.4 billion to continue the State’s transition to LCFF, bringing the formula to 97% of full implementation;
- an increase of \$877 million in one-time discretionary grants to provide school districts, charter schools and county offices of education with funds to be used for items such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and the implementation of new educational standards;
- an increase in \$7 million to support county offices of education, which funding requires county superintendents of schools to summarize how the county offices of education will support school districts and schools within the county;
- \$1.8 billion to pay down past budgetary borrowing and State employee pension liabilities;
- a \$6 billion supplemental payment to PERS, on top of the actuarially determined annual contribution of \$5.2 billion, through a loan from the State’s Surplus Money Investment Fund, which will reduce unfunded liabilities, stabilize the State’s contribution rate and save \$11 billion over the next twenty years;
- \$2.8 billion dollars for STRS, which contribution is consistent with the funding strategy of putting STRS on a sustainable path forward and eliminating its current unfunded liability in approximately 30 years;
- new appropriations of \$2.8 billion, distributed evenly between State and local transportation authorities, to implement the Road Repair and Accountability Act of 2017;
- \$84.9 million to address issues from the State’s recent drought emergency, including \$41.9 million to extend the fire season and expand the State’s firefighting capabilities to reduce the fire risk from climate change, the recent drought and tree mortality; and
- an increase of \$31.5 million to repair and maintain the aging infrastructure of the State’s park system.

## 2018-19 Proposed State Budget

**Proposed State Budget.** On January 10, 2018, the Governor released the proposed State budget for fiscal year 2018-19 (the “**2018-19 Proposed Budget**”). The 2018-19 Proposed Budget, despite projecting a one-time surplus and assuming continued expansion of the State economy, proposes a \$3.5 billion deposit in order to fully fund the State’s “Rainy Day Fund” in order to soften the magnitude of any future budget cuts. The 2018-19 Proposed Budget includes \$131.7 billion in general fund spending and reserves of \$1.2 billion. The 2018-19 Proposed Budget revises the Proposition 98 minimum funding guarantee for school districts, community college districts, and other state agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 to \$78.3 billion, reflecting a year-to-year increase of \$3.1 billion from fiscal year 2017-18. This includes an approximately \$3 billion investment to fully implement the LCFF two years earlier than originally projected. Ongoing Proposition 98 per-pupil expenditures in fiscal year 2018-19 are set at \$11,614, an increase of \$465 per-pupil over the revised level for fiscal year 2017-18. The Governor is required to release a May Revision to the proposed budget by May 14 of each year.

**LAO Budget Overview.** On January 12, 2018, the Legislative Analyst’s Office (the “**LAO**”), a nonpartisan State office that provides fiscal and policy information and advice to the State Legislature, released its report on the 2018-19 Proposed State Budget entitled, “The 2018-19 Budget: Overview of the Governor’s Budget” (the “**2018-19 Proposed Budget Overview**”). In the 2018-19 Proposed Budget Overview, the LAO commends the Governor’s proposed total reserve balance of \$15.7 billion, which includes an optional \$3.5 billion deposit into the State’s constitutional rainy day fund and \$2.2 billion in discretionary reserves. The LAO believes that the State’s emphasis on increasing budget reserves is prudent in light of economic and federal budget uncertainty, enabling the State to weather the next recession with minimal disruption to public programs. This commendation notwithstanding, the LAO urges the State Legislature to deliberate on its optimal level of reserves, as filling the rainy day fund now may constrain its ability to build more reserves or make other budget commitments in future years.

The 2018-19 Proposed Budget Overview also highlights the Governor’s proposed allocation of funding increases for schools and community colleges. According to the estimates of the Governor’s office, there are sizeable resources available to allocate within the constitutionally required funding guarantee for schools and community colleges, permitting the State to (1) fully fund the implementation of the K-12 LCFF, (2) increase community college apportionments and implement a new allocation formula, and (3) create a new high school career technical education program. The LAO believes that the proposed education spending is reasonable but notes that the State Legislature may take different, more efficient approaches to achieving the same education financing goals.

Furthermore, the 2018-19 Proposed Budget apportions some discretionary funds for a variety of new infrastructure projects. While the LAO considers these infrastructure proposals to have merit, it cautions against prioritizing some of the identified infrastructure projects, which may have alternative financing sources or may bring significant, ongoing costs to the State’s general fund.

The complete 2018-19 Proposed Budget Overview is available from the LAO’s website at [www.lao.ca.gov](http://www.lao.ca.gov). The District cannot, and does not, take any responsibility for the continued accuracy of such internet address or for the accuracy, completeness or timeliness of information posted on such address, and such information is not incorporated in this Official Statement by such reference.

**May Revision.** On May 11, 2018, the Governor released his May Revision to the 2018-19 Proposed Budget (the “**May Revision**”). The May Revision projects \$137.6 billion in revenue and \$137.6 billion in general fund spending, and directs \$3.2 billion into the State’s traditional reserve fund. The May Revision maintains the January proposal to fully fund the Rainy Day Fund, which is projected to have a balance of \$9.4 billion at the end of the 2017-18 fiscal year, and projected to grow to \$13.8 billion at the end of the 2018-19 fiscal year. The Governor continues to focus on one-time spending initiatives, while focusing on the core priorities of increasing K-12 education funding, combating homelessness, investing in infrastructure, and fighting climate change.

In particular, with respect to K-12 education funding, \$74.8 billion of funding is provided for education under Proposition 98, representing an increase of \$68 million from the 2018-19 Proposed Budget. The May Revision maintains the 3% increase in funding for higher education, and also provides each university system with \$100 million in one-time funding for deferred maintenance purposes. The May Revision includes \$359 million of new spending on homelessness programs, and a \$312 million proposal to assist counties with mental health services. Two billion is budgeted for infrastructure funding, including \$1 billion for deferred maintenance, and \$1 billion for improvements to flood control, courts, higher education, and other state facilities. Finally, the May Revision proposes \$96 million to implement the “Forest Carbon Plan” and to take other actions to protect California’s forests against the threat of wildfires. This \$96 million is in addition to the \$160 million proposed in the cap-and-trade expenditure plan to support forest improvements and fire protection.

**LAO Commentary on May Revision.** On May 12, 2018, the LAO released its report on the May Revision entitled, “The 2018-19 Budget: The May Revision” (the “**LAO Report on the May Revision**”). The LAO notes that compared to January 2018, estimated revenues and transfers have increased by a combined \$7.6 billion across fiscal years 2016-17 through 2018-19, which the LAO notes are primarily driven by higher revenues from personal income taxes and, to a lesser extent, the corporate tax. However, the increased revenues are largely offset by formula-driven constitutional spending requirements for education, outstanding debt and Medi-Cal. As of the May Revision, the LAO estimates that the Governor had \$4.1 billion in discretionary resources to allocate, which were allocated to reserves and largely one-time spending purposes.

The LAO’s initial assessment of the May Revision suggests that there are reasons to believe the State’s General Fund could be in a considerably better condition than suggested by the May Revision. The reasons provided by the LAO are that (1) the LAO predicts higher revenue and transfer estimates than the administration’s predictions, by \$2.6 billion between fiscal years 2016-17 and 2018-19, largely due to the LAO’s projections of high capital gains in 2017 and 2018, and high wages and salaries in 2019, and (2) constitutionally required education spending under Proposition 98 is likely to be lower than suggested by the May Revision due to ADA assumptions which are higher than the LAO predicts, and higher local property tax revenues. In addition, the LAO recommends that the Legislature scrutinize the Medi-Cal Budget and its underlying assumptions which likely result in high end estimates of the costs of deferred claims. Finally, the LAO comments that the total reserve balance shown in the May Revision (\$17 billion) is slightly higher than proposed in January and that the Governor uses available discretionary revenues for spending on largely one-time purposes, both of which are tools used to plan for a recession. The LAO notes that a mild recession occurring after 2018-19 might not require many actions such as spending cuts or revenue increases to bring the budget into balance, but a moderate or severe recession would still require many billions of dollars in actions over many years to bring the budget back into balance.



***Disclaimer Regarding State Budgets.*** The execution of the foregoing 2017-18 State Budget and future State budgets may be affected by numerous factors, including but not limited to: (i) shifts of costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risk associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities such as pension or OPEB and (v) other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the accuracy of any assumptions or projections made in State budgets. Additionally, the District cannot predict the impact that the 2017-18 State Budget, or subsequent state budgets, will have on its own finances and operations. However, the Refunding Bonds are secured by *ad valorem* taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

The State has not entered into any contractual commitment with the District, the County, the Underwriter or the Owners of the Refunding Bonds to provide State budget information to the District or the owners of the Refunding Bonds. Although they believe the sources of information listed below are reliable, neither the District nor the Underwriter assumes any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein.

***Availability of State Budget Documents.*** The complete 2017-18 State Budget, 2018-19 Proposed State Budget and the May Revision are available from the California Department of Finance website at [www.ebudget.ca.gov](http://www.ebudget.ca.gov). An impartial analysis of the budget and related documents is posted by the Legislative Analyst Office at [www.lao.ca.gov/budget](http://www.lao.ca.gov/budget). The District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon in making an investment decision with respect to the Refunding Bonds.

***Uncertainty Regarding Future State Budgets.*** The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future revenues and expenditures and possible future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets.

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

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

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Refunding Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Refunding Bonds. The tax levied by the County for payment of the Refunded Bonds and thus the Refunding Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

### Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues, there shall be first set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases and increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

### Article XIII A of the California Constitution

**Basic Property Tax Levy.** On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness (which provided the authority for the issuance of the Refunded Bonds), and (iii) (as a result of an amendment to Article XIII A approved by State voters on November 7, 2000) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

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

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

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

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

**Inflationary Adjustment of Assessed Valuation.** As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home’s taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to “recapture” the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year’s assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the “recapture” provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

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

Article XIII B (“**Article XIII B**”) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from

certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, in the event that a school district's revenues exceed its spending limit, the district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

### **Unitary Property**

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("**unitary property**"). Under the State Constitution, such property is assessed by the State Board of Equalization ("**SBE**") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

### **Articles XIII C and XIII D**

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

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIII C to expand the definition of "tax" to include "any levy, charge, or exaction of any kind

imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

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

While the provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District (thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District), the District does not believe that Proposition 218 will directly impact the revenues available to pay debt service on the Refunding Bonds.

## **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “**Accountability Act**”). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State’s appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as “K-14 school districts”) at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding

calculation for K 14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K 14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

## **Proposition 111**

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("**Proposition 111**") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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

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

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

***Exclusions from Spending Limit.*** Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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

***School Funding Guarantee.*** There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of

State general fund revenues (the “**first test**”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to *per capita* personal income) and enrollment (the “**second test**”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less than the annual growth in California per capita personal income (the “**third test**”). Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as “**Proposition 39**”) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, community college districts, including the District, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1 percent of the value of property. Prior to the approval of Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement authorized by Proposition 39 applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for an elementary school district or high school district), or \$25 (for a community college district), per \$100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

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

Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “**Proposition 30**”), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an

additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,000 for joint filers and over, \$340,000 but less than \$408,000 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$600,000 but less than \$1,000,000 for joint filers and over \$408,000 but less than \$680,000 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

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

The California Children’s Education and Health Care Protection Act of 2016, also known as Proposition 55, was a constitutional amendment initiative that was approved on the November 8, 2016 general election ballot in California. Proposition 55 extends the increases to personal income tax rates for high-income taxpayers that were approved as part of Proposition 30 through 2030, instead of the scheduled expiration date of December 31, 2018; Proposition 55 did not extend the sales tax increase that was approved as part of Proposition 30. Tax revenue received under Proposition 55 is to be allocated 89% to K-12 schools and 11% to community colleges.

## **Proposition 1A and Proposition 22**

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Under Proposition 1A, beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to



approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, a constitutional initiative entitled the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” approved on November 2, 2010, superseded many of the provision of Proposition 1A. This initiative amends the State constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government. This Proposition was intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. Proposition 22 did not prevent the California State Legislature from dissolving State redevelopment agencies pursuant to AB 1X26, as confirmed by the decision of the California Supreme Court decision in *California Redevelopment Association v. Matosantos* (2011).

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

### **California Senate Bill 222**

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

### **Future Initiatives and Other Statutes**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 22, 26, 30 and 39 were each adopted as measures that qualified for the ballot under the State’s initiative process. From time to time other initiative measures and legislation could be adopted further affecting District revenues or the District’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

## **BOND OWNERS' RISKS**

*The following describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider the following special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future.*

### **No Pledge of Taxes**

**General.** The obligation of the District to pay the Lease Payments and Additional Rental does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Lease Payments and Additional Rental does not constitute a debt or indebtedness of the Authority, the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The District is currently liable on other obligations payable from general revenues, which are described above under "DISTRICT FINANCIAL INFORMATION – Long-Term General Fund Obligations."

### **Limitations on Taxes and Fees**

**Limitations on Taxes and Fees.** Certain taxes, assessments, fees and charges presently imposed by the District could be subject to the voter approval requirements of Article XIIC and Article XIID of the State Constitution. Based upon the outcome of an election by the voters, such fees, charges, assessments and taxes might no longer be permitted to be imposed, or may be reduced or eliminated and new taxes, assessments fees and charges may not be approved. The District has assessed the potential impact on its financial condition of the provisions of Article XIIC and Article XIID of the State Constitution respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the District believes that if the initiative power was exercised so that all local taxes, assessments, fees and charges that may be subject to Article XIIC and Article XIID of the State Constitution are eliminated or substantially reduced, the financial condition of the District, including its General Fund, could be materially adversely affected.

Although the District does not currently anticipate that the provisions of Article XIIC and Article XIID of the State Constitution would adversely affect its ability to pay Lease Payments and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Article XIIC and Article XIID of the State Constitution on the District's finances. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

### **Additional Obligations of the District**

The District has existing obligations payable from its General Fund. See "DISTRICT FINANCIAL INFORMATION – Long-Term General Fund Obligations." The District is permitted to enter into other obligations which constitute additional charges against its revenues without the

consent of Owners of the Bonds. To the extent that additional obligations are incurred by the District, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreement (including payment of costs of repair and maintenance of the Site, taxes and other governmental charges levied against the Site) are payable from funds lawfully available to the District. If the amounts that the District is obligated to pay in a fiscal year exceed the District's revenues for such year, the District may choose to make some payments rather than making other payments, including Lease Payments and Additional Rental, based on the perceived needs of the District. The same result could occur if, because of California Constitutional limits on expenditures, the District is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

### **Default**

Whenever any event of default referred to in the Lease Agreement happens and continues, the Authority is authorized under the terms of the Lease Agreement to exercise any and all remedies available under law or granted under the Lease Agreement. See "APPENDIX B – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" for a detailed description of available remedies in the case of a default under the Lease Agreement.

If a default occurs, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The Trustee is not empowered to sell the Site and use the proceeds of such sale to prepay the Bonds or pay debt service on the Bonds.

The District will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against municipalities in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

### **Abatement**

Under certain circumstances related to damage, destruction, condemnation or title defects which cause a substantial interference with the use and possession of the Site, the District's obligation to make Lease Payments will be subject to full or partial abatement and could result in the Trustee having inadequate funds to pay the principal and interest on the Bonds as and when due. See "SECURITY FOR THE BONDS – Abatement" and "APPENDIX B – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Although the District is required under the Lease Agreement to maintain property and liability insurance with respect to the Site, the required insurance coverage is subject to certain conditions and restrictions. See "SECURITY FOR THE BONDS – Property Insurance."

In addition, the Authority is required to use the proceeds of rental interruption insurance maintained under the Lease Agreement to make debt service payments on the Bonds during any period of abatement. See "SECURITY FOR THE BONDS – Property Insurance." However, there is no assurance that the Authority will receive proceeds of rental interruption insurance in time to make debt service payments on the Bonds when due.

## **Economic Conditions in California**

Most public school districts in California, including the District, are dependent on revenues from the State for a large portion of their operating budgets. The primary source of funding for school districts is a combination of State funds and local property taxes. State funds typically make up the majority of a district's revenue.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process.

The State has, in the past, experienced significant budget shortfalls. Decreases in State revenues can significantly affect appropriations made by the State to school districts, and the timing of payments to school districts by the State may depend upon the ability of the State to access the credit markets with respect to its own cash flow borrowings. If State monies are not available to meet its obligations in a timely manner, school funding along with certain other services, are given priority under the State Constitution. See "DISTRICT FINANCIAL INFORMATION – Education Funding Generally" herein. The Lease Payments are payable from any Legally Available Funds of the District, and as such, reductions in revenue received by the District from the State could impact the District's ability to make Lease Payments. See "DISTRICT FINANCIAL INFORMATION – Education Funding Generally."

## **Property Taxes**

The Bonds are not secured by a levy or pledge of any form of property taxation. However, the District is obligated to make Lease Payments from any legally available source. One source of funding for the District is its share of local property taxes. See "DISTRICT FINANCIAL INFORMATION."

***Levy and Collection.*** The District does not have any independent power to levy and collect property taxes. Any reduction in the tax rate or the implementation of any constitutional or legislative property tax decrease applied to taxable property in the District could reduce the District's property tax revenues, and accordingly, could have an adverse impact on the ability of the District to make Lease Payments. Likewise, if the Teeter Plan were to be discontinued for the District, delinquencies in the payment of property taxes could have an adverse effect on the District's ability to pay principal of and interest on the Bonds when due.

***Reduction in Inflationary Rate.*** Article XIII A of the California Constitution provides that the full cash value base of real property used in determining assessed value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." Such measure is computed on a calendar year basis. Because Article XIII A limits inflationary assessed value adjustments to the lesser of the actual inflationary rate or 2%, there have been years in which the assessed values were adjusted by actual inflationary rates, which were less than 2%. Since Article XIII A was approved, the annual adjustment for inflation has fallen below the 2% limitation a limited number of times.

The District is unable to predict if any adjustments to the full cash value base of real property within the District, whether an increase or a reduction, will be realized in the future.

**Appeals of Assessed Values.** There are two types of appeals of assessed values that could adversely impact property tax revenues:

*Proposition 8 Appeals.* Most of the appeals that might be filed in the District would be based on Section 51 of the Revenue and Taxation Code, which requires that for each lien date the value of real property must be the lesser of its base year value annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. These market-driven appeals are known as Proposition 8 appeals.

Any reduction in the assessment ultimately granted as a Proposition 8 appeal applies to the year for which application is made and during which the written application was filed. These reductions are often temporary and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A.

*Base Year Appeals.* A second type of assessment appeal is called a base year appeal, where the property owners challenge the original (basis) value of their property. Appeals for reduction in the “base year” value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the District’s property tax revenues.

### **Limitations on Remedies Available to Bond Owners**

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Lease Agreement or the Trust Agreement are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

The ability of the District to comply with its covenants under the Lease Agreement may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” above.

In addition to the limitations on Bondowner remedies contained in the Lease Agreement and the Trust Agreement, the rights and obligations under the Bonds, the Lease Agreement and the Trust Agreement may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The opinion to be delivered by Bond Counsel, concurrently with the issuance of the Bonds, will include a qualification that the rights of the owners of the Bonds and the enforceability of the Bonds and the Trust Agreement, the Lease Agreement and the Site Lease may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases. See "APPENDIX D — PROPOSED FORM OF OPINION OF BOND COUNSEL."

There is no deed of trust or mortgage on the Site securing the Bonds.

### **Loss of Tax-Exemption**

As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority or the District in violation of their respective covenants in the Lease Agreement and the Trust Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Trust Agreement.

### **Tax Cuts and Jobs Act**

H.R. 1 of the 115th U.S. Congress, known as the "Tax Cuts and Jobs Act," was enacted into law on December 22, 2017 (Pub. L. No. 115-97, 131 Stat. 2054 (2017)) (the "Tax Act"). The Tax Act makes significant changes to many aspects of the Internal Revenue Code of 1986, as amended ("Code"). For example, the Tax Act reduces the amount of mortgage interest expense and state and local income tax and property tax expense that individuals may deduct from their gross income for federal income tax purposes, which could adversely affect the assessed values of residences in the District. However, the District cannot predict the effect that the Tax Act may have on its finances.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular

issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Natural Calamities**

**General.** From time to time, the District has been and could be subject to natural calamities, including, but not limited to, earthquake, flood or wildfire, that may adversely affect economic activity in the District, and which could have a negative impact on District finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Site, or that the District would have insurance or other resources available to make repairs to the Site in order to make the Lease Payments under the Lease Agreement. See “- Abatement” above.

**Seismic.** Like most regions in California, the areas in and surrounding the District may be subject to unpredictable seismic activity, including earthquakes and landslides. If there were to be an occurrence of severe seismic activity in the District, there could be substantial damage to and interference with the District’s right to use and occupy all or a portion of the Site, which could result in Lease Payments being subject to abatement. See “- Abatement” above. Damage resulting from such an event could have a material adverse effect on the District’s financial condition as well, through unexpected recovery costs and reduced tax and other revenues.

The District is not required to obtain earthquake insurance for the Site. See “SECURITY FOR THE BONDS - Property Insurance” above. Also see “THE LEASED PROPERTY” for information about the Site.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Atkinson, Andelson, Loya, Ruud & Romo, A Professional Corporation, Irvine, California, Bond Counsel, subject, however, to certain qualifications described herein, based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes. In the opinion of Bond Counsel, such interest is not an item of tax preference for purposes of the federal alternative minimum tax, but it is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax applicable to taxable years beginning before January 1, 2018.

The opinions of Bond Counsel set forth in the preceding paragraph are subject to the condition that the Authority complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Trust Agreement to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Trust Agreement and other related documents refer to certain requirements, covenants and procedures which may be changed and certain actions that may be taken, upon the advice or with an opinion of nationally recognized bond counsel. No opinion is expressed by Bond Counsel as to the effect on any Bond or the interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than Bond Counsel. Bond Counsel expresses no opinion regarding other tax consequences arising with respect to the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from State personal income taxation.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or State tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or State tax consequences arising with respect to the Bonds other than as expressly described above.

See APPENDIX D for the proposed form of the opinion of Bond Counsel.

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



## **Original Issue Discount; Premium Bonds**

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

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

## **Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption**

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the Bonds from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such or future legislative proposals, clarification of the Code or court decisions may also affect the market price for, liquidity of, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation.

As discussed above under “– Tax Exemption,” interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the Authority in violation of its covenants in the Trust Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Trust Agreement.

## **Backup Withholding**

Interest paid with respect to tax-exempt obligations such as the Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest with respect to the Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS or (b) has been identified by the IRS as being subject to backup withholding.

## **CERTAIN LEGAL MATTERS**

Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which is set forth in APPENDIX D." Certain legal matters will also be passed upon for the District and the Authority by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the District and the Authority by Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California, as District Counsel.

## **LITIGATION**

To the best knowledge of the District, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending and notice of which has been served on and received by the District or, to the knowledge of the District, threatened against or affecting the District or the assets, properties or operations of the District which, if determined adversely to the District or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Lease Agreement, the Site Lease or the Trust Agreement, or upon the financial condition, assets, properties or operations of the District, and the District is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially adversely affect the consummation of the transactions contemplated by the Lease Agreement, the Site Lease or the Trust Agreement, or the financial conditions, assets, properties or operations of the District, including but not limited to the payment and performance of the District's obligations under the Lease Agreement.

## **RATING**

[S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), has assigned its municipal bond rating of "\_\_\_" to the Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.]

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The District has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that this rating will continue for any given period of time or that this rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the Bonds may have an adverse effect on the market price or marketability of the Bonds.

## CONTINUING DISCLOSURE

The District (on behalf of the Authority and itself) will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District (the “**Annual Report**”), by not later than nine months after the end of the District's fiscal year (presently June 30) and commencing March 31, 2019, with the report for the fiscal year ending June 30, 2018, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the purchaser of the Bonds in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the “**Rule**”). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in “APPENDIX E — FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

[Describe any deficiencies in complying with continuing disclosure requirements.]

Cooperative Strategies, LLC, will serve as the initial dissemination agent to the District with respect to the District's continuing disclosure undertaking for the Bonds pursuant to the Rule.

## MUNICIPAL ADVISOR

The District and the Authority have retained Cooperative Strategies, LLC, Irvine, California, as municipal advisor (the “**Municipal Advisor**”) in connection with the offering of the Bonds and the preparation of this Official Statement. The Municipal Advisor assisted in the preparation and review of this Official Statement. All financial and other information presented in this Official Statement has been provided by the District and the Authority from their records, except for information expressly attributed to other sources. The Municipal Advisor takes no responsibility for the accuracy or completeness of the data provided by the District, the Authority or others and has not undertaken to make an independent verification or does not assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

## UNDERWRITING

Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”), has entered into a bond purchase agreement with the Authority and District under which the Underwriter will purchase the Bonds at a price of \$\_\_\_\_\_ (equal to the par amount of the Bonds, plus/less a [net] original issue [premium/discount] of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_).

The Underwriter will be obligated to take and pay for all of the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the inside

cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

### **PROFESSIONAL SERVICES**

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Atkinson, Andelson, Loya, Ruud & Romo, A Professional Law Corporation, Irvine, California , as Bond Counsel and District Counsel; Jones Hall, A Professional Law Corporation, as Disclosure Counsel; James F. Anderson Law Firm, A Professional Law Corporation, Laguna Hills, California, as Underwriter's counsel; Cooperative Strategies, LLC, as municipal advisor to the Authority and the District; and ZB, National Association dba Zions Bank, as Trustee.

### **EXECUTION**

The execution of this Official Statement and its delivery have been authorized by the Board of the Authority and the Governing Board of the District.

WILLIAM S. HART JOINT SCHOOL FINANCING  
AUTHORITY

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

WILLIAM S. HART UNION HIGH SCHOOL  
DISTRICT

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

## APPENDIX A

### GENERAL INFORMATION ABOUT THE CITY OF SANTA CLARITA AND THE COUNTY OF LOS ANGELES

*The Bonds are not a debt of the County of Los Angeles. The County, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on Bonds at the time such payment is due.*

*The following information is included only for the purpose of supplying general information regarding the City of Santa Clarita and the County of Los Angeles. This information is provided only for general informational purposes, and provides prospective investors limited information about the area in and around the Community Facilities District and its economic base. It should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the Community Facilities District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE BONDS."*

#### **General Information**

The School District is located in the Santa Clarita Valley area of northern Los Angeles County. The area is composed of seven communities: Canyon Country, Newhall, Saugus and Valencia, which are located in the city limits of the City, and the unincorporated communities of Castaic, Stevenson Ranch and Val Verde. These communities are briefly described below.

***The City.*** The City of Santa Clarita (the "**City**") was officially incorporated as a general law city on December 15, 1987 after a ballot measure was passed by the City's residents. The City operates under a council-manager form of government and provides, either directly or under contract with the County, a full range of municipal services including public safety, public works, parks and recreation and community development.

Canyon Country is the City's most populous community, and also features some industrial uses and several neighborhood shopping plazas.

Newhall represents the area's oldest established community, dating to its founding in 1876 along a key rail line. Newhall is an older diverse residential area with significant commercial and restaurant uses. The Newhall area has served as the locale for Disney Movie Ranch, Gene Autry's Melody Ranch, a park and nature center, and film star William S. Hart's former ranch, now a museum.

Saugus owes its existence to the Southern Pacific Railroad Line and was the home of a original railroad station. Saugus is a mix of new residential areas amid established neighborhoods, with additional commercial and retail centers.

Valencia is a master-planned community, developed by the Newhall Land and Farming Company. Based on the Valencia Master Plan, this community features a balance of business and residential land uses. Valencia includes park-like neighborhoods, golf courses and lighted landscaped walkways connecting homes, schools, shopping and recreational facilities, including Six Flags Magic Mountain.

Castaic is one of Santa Clarita Valley's major recreation area, with its lake serving as the center of the area's swimming, sailing, fishing, boating and water skiing. Because of its proximity to the San Joaquin Valley, this community is also a connection point in the north-south trucking network.

Stevenson Ranch is a newer community, located west of the City. It has both residential and commercial uses.

Val Verde is a small rural resort area in the hilly northwestern portion of the Santa Clarita Valley, adjacent to Ventura County.

Newhall Ranch is an area that encompasses some 12,000 acres west of Valencia, which is being develop by the Newhall Land and Farming Company. The Newhall Ranch Specific Plan permits 21,600 homes, 1,000 acres of commercial, business park and mixed use development, with approximately 6,200 acres of open space.

**The County.** Located along the southern coast of California, Los Angeles County covers about 4,080 square miles. It measures approximately 75 miles from north to south and 70 miles from east to west. The county includes Santa Catalina and San Clemente Islands and is bordered by the Pacific Ocean and Ventura, San Bernardino and Orange Counties.

Almost half of the county is mountainous and some 14 percent is a coastal plain known as the Los Angeles Basin. The low Santa Monica mountains and Hollywood Hills run east and west and form the northern boundary of the Basin and the southern boundary of the San Fernando Valley. The San Fernando Valley terminates at the base of the San Gabriel Mountains whose highest peak is over 10,000 feet. Beyond this mountain range the rest of the county is a semi-dry plateau, the beginning of the vast Mojave Desert.

According to the Los Angeles County Regional Planning Commission, the 88 incorporated cities in the county cover about 1,344 square miles or 27 percent of the total county. About 16 percent of the land in the County is devoted to residential use and over two thirds of the land is open space and vacant. The county has over ten million residents, which accounts for approximately 26 percent of the population of the state of California.

## Population

The following table shows population estimates for the City, the County and the State of California for the past five years.

### CITY OF SANTA CLARITA, COUNTY OF LOS ANGELES POPULATION ESTIMATES

Area	2014	2015	2016	2017	2018
City of Santa Clarita	208,097	209,274	209,736	215,348	216,589
Los Angeles County	10,088,458	10,149,661	10,180,169	10,231,271	10,283,729
State of California	38,568,628	38,912,464	39,179,627	39,500,973	39,809,693

Source: State of California, Department of Finance, as of January 1.

## Employment and Industry

The area of the Community Facilities District is included in the Los Angeles–Long Beach–Glendale Metropolitan District, which is comprised of Los Angeles County. Los Angeles County civilian labor force figures are shown in the following table. These figures are County-wide and may not necessarily reflect employment trends in the Community Facilities District.

The seasonally adjusted unemployment rate in Los Angeles County was unchanged over the month at 4.4 percent in May 2018 from a revised 4.4 percent in April 2018 and was below the rate of 4.8 one year ago. Civilian employment increased by 2,000 to 4,914,000 in May 2018, while unemployment declined by 2,000 to 227,000 over the month. The civilian labor force was unchanged over the month at 5,141,000 in May 2018. (All of the above figures are seasonally adjusted.) The unadjusted unemployment rate for the county was 4.0 percent in May 2018.

The table below lists employment by industry group for Los Angeles County for the past five years for which data is available.

### COUNTY OF LOS ANGELES Annual Average Labor Force Employment by Industry Group

	2013	2014	2015	2016	2017
Civilian Labor Force	4,960,300	5,025,900	5,002,600	5,055,000	5,123,000
Employment	4,470,700	4,610,800	4,671,600	4,789,300	4,882,100
Unemployment	489,600	415,100	331,000	265,600	240,900
Unemployment Rate	9.9%	8.3%	6.6%	5.3%	4.7%
<u>Wage and Salary Employment: <sup>(1)</sup></u>					
Agriculture	5,500	5,300	5,000	5,300	5,800
Mining and Logging	4,600	4,700	2,900	2,500	2,200
Construction	116,500	120,200	126,200	133,900	137,700
Manufacturing	366,500	364,900	367,800	360,300	350,100
Wholesale Trade	217,800	223,500	225,600	225,200	224,500
Retail Trade	405,900	414,500	419,300	421,500	422,500
Trans., Warehousing, Utilities	156,900	162,700	171,500	182,300	191,800
Information	197,300	195,900	207,500	229,200	214,500
Financial and Insurance	137,100	133,300	135,600	138,100	137,400
Real Estate, Rental & Leasing	74,700	76,400	80,000	81,600	83,700
Professional and Business Services	590,300	609,400	593,800	603,200	613,400
Educational and Health Services	713,400	748,000	741,100	767,600	794,300
Leisure and Hospitality	436,700	464,600	486,600	510,000	523,900
Other Services	145,500	151,700	151,000	153,300	154,100
Federal Government	47,300	46,800	47,400	47,700	48,000
State Government	83,400	85,400	87,400	89,900	92,500
Local Government	418,600	424,500	433,700	439,100	444,900
Total All Industries <sup>(2)</sup>	4,118,000	4,231,700	4,282,300	4,390,100	4,441,400

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) May not add due to rounding.

Source: State of California Employment Development Department.

## Employment

The table below lists the major employers in the City and the Los Angeles County area. Major private employers in the Los Angeles area include those in aerospace, health care, entertainment, electronics, retail and manufacturing. Major public sector employers include public universities and schools, the State of California and Los Angeles County.

### CITY OF SANTA CLARITA Major Employers March 2017

Employer Name	Number of Employees	Percent of Total Employment
Six Flags Magic Mountain	3,200	11.07%
Princess Cruises	2,026	7.01
Henry Mayo Newhall Memorial Hospital	1,948	6.74
Boston Scientific	900	3.11
The Master's College	760	2.63
Cal Arts	700	2.42
Woodward HRT (formerly HR Textron)	650	2.25
Walmart	624	2.16
Aerospace Dynamics	608	2.10
Quest Diagnostics	594	2.06
<b>Total Largest Firms<sup>(1)</sup></b>	12,010	41.55
All Others	16,893	58.45
<b>Grand Total</b>	28,903	100.00%

<sup>(1)</sup> Non-governmental employers.

Source: City of Santa Clarita Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2017.



**LOS ANGELES COUNTY**  
**Major Employers - June 2018**

<b>Employer Name</b>	<b>Location</b>	<b>Industry</b>
AHMC Healthcare Inc	Alhambra	Health Care Management
American Honda Motor Co Inc	Torrance	Automobile-Manufacturers
Cedar-Sinai Medical Ctr	West Hollywood	Hospitals
Century Plaza Towers	Los Angeles	Office Buildings & Parks
Crowne Plaza-Commerce Casino	Commerce	Hotels & Motels
Edd	Los Angeles	State Government-General Offices
JET Propulsion Laboratory	Pasadena	Research Service
Kaiser Permanente Los Angeles	Los Angeles	Hospitals
LAC & USC Medical Ctr	Los Angeles	Hospitals
Long Beach City Hall	Long Beach	Government Offices-City, Village & Twp
Los Angeles County Sheriff	Monterey Park	Government Offices-County
Los Angeles Intl Airport-Lax	Los Angeles	Airports
Los Angeles Police Dept	Los Angeles	Police Departments
Nestle USA Inc	Glendale	Food Products & Manufacturers
Paramount Special Events	Los Angeles	Motion Picture Producers & Studios
Radford Studio Ctr Inc	Studio City	Government-Operators-Nonresidential Bldg
Security Industry Specialist	Culver City	Security Systems Consultants
Sony Pictures Entertainment	Culver City	Motion Picture Producers & Studios
UCLA Health System	Los Angeles	Physicians & Surgeons
University of Ca Los Angeles	Los Angeles	Schools-Universities & Colleges Academic
University of Ca Los Angeles	Los Angeles	Schools-Universities & Colleges Academic
University of Southern Califor	Los Angeles	Schools-Universities & Colleges Academic
Vxi Global Solutions	Los Angeles	Call Centers
Walt Disney Co	Burbank	Motion Picture Producers & Studios
Warner Bros Studio	Burbank	Television Program Producers

*Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2018 2nd Edition.*

## Commercial Activity

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the calendar year 2016 in the City were reported to be \$154,208,333,057, a 2.06% increase over the total taxable sales of \$151,033,781,278 reported during the calendar year 2015. Annual figures for calendar year 2017 are not yet available.

### CITY OF SANTA CLARITA Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	4,260	2,299,494	6,021	2,764,693
2013	4,248	2,397,544	6,012	2,896,147
2014	4,447	2,475,198	6,232	3,004,553
2015	4,627	2,530,272	7,008	3,096,583
2016	4,570	2,533,678	7,009	3,151,492

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State of California, Board of Equalization.

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable transactions during the calendar year 2016 in the County were reported to be \$3,151,491,989, a 1.74% increase over the total taxable transactions of \$3,096,583,358 reported during the calendar year 2015. Annual figures for calendar year 2017 are not yet available.

### COUNTY OF LOS ANGELES Taxable Transactions (Dollars in Thousands)

	Retail Stores		Total Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2012	180,359	95,318,603	266,414	135,295,582
2013	179,370	99,641,174	263,792	140,079,708
2014	187,408	104,189,819	272,733	147,446,927
2015	112,657	108,147,021	310,063	151,033,781
2016	196,929	109,997,043	311,295	154,208,333

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: State of California, Board of Equalization.

## Construction Trends

Provided below are the building permits and valuations for the City and the County for calendar years 2011 through 2015.

### CITY OF SANTA CLARITA New Construction (Dollars in Thousands)

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$109,263.0	\$81,148.2	\$106,305.0	\$131,237.4	\$145,927.1
New Multi-family	0.0	7,231.0	24,936.0	4,143.3	22,421.9
Res. Alterations/Additions	<u>7,149.5</u>	<u>11,675.5</u>	<u>10,861.7</u>	<u>7,059.0</u>	<u>6,559.2</u>
Total Residential	\$116,412.5	\$100,054.7	\$142,102.7	\$142,439.7	\$174,908.2
New Commercial	\$20,411.8	\$464.6	\$12,021.7	\$10,666.6	\$53,705.4
New Industrial	1,210.4	0.0	0.0	0.0	0.0
New Other	2,609.0	14,987.8	11,427.6	30,798.4	14,010.5
Com. Alterations/Additions	<u>50,030.0</u>	<u>31,019.9</u>	<u>37,326.2</u>	<u>56,826.1</u>	<u>36,609.2</u>
Total Nonresidential	\$74,261.2	\$46,472.3	\$60,775.5	\$98,291.1	\$104,325.1
<u>New Dwelling Units</u>					
Single Family	306	290	320	401	413
Multiple Family	<u>0</u>	<u>31</u>	<u>111</u>	<u>52</u>	<u>139</u>
TOTAL	306	321	431	453	552

Source: Construction Industry Research Board, Building Permit Summary.

### COUNTY OF LOS ANGELES New Construction (Dollars in Thousands)

	2013	2014	2015	2016	2017
<u>Permit Valuation</u>					
New Single-family	\$1,523,457.5	\$1,744,290.3	\$1,897,829.7	\$2,162,018.2	\$1,078,181.1
New Multi-family	1,953,088.6	2,290,197.4	2,843,749.1	2,774,294.3	2,368,198.1
Res. Alterations/Additions	<u>1,267,408.4</u>	<u>1,474,930.2</u>	<u>1,641,457.3</u>	<u>1,639,295.0</u>	<u>904,815.5</u>
Total Residential	\$4,743,954.50	\$5,509,417.9	\$6,383,036.1	6,575,607.4	\$4,351,194.7
New Commercial	\$1,788,462.0	\$1,894,609.0	\$1,695,869.8	\$1,728,443.3	\$1,042,025.1
New Industrial	155,035.2	120,740.5	85,937.1	138,408.5	75,103.1
New Other	338,223.4	1,375,948.5	1,157,838.0	791,078.1	254,347.7
Com. Alterations/Additions	<u>2,171,248.4</u>	<u>3,266,273.2</u>	<u>2,705,727.4</u>	<u>2,880,916.6</u>	<u>1,699,180.6</u>
Total Nonresidential	\$4,452,969.0	\$6,657,571.2	\$5,645,372.3	\$5,538,846.5	\$3,337,656.5
<u>New Dwelling Units</u>					
Single Family	3,607	4,358	4,487	4,780	2,476
Multiple Family	<u>13,243</u>	<u>14,349</u>	<u>18,405</u>	<u>15,589</u>	<u>11,971</u>
TOTAL	16,850	18,707	22,892	20,369	14,447

Source: Construction Industry Research Board, Building Permit Summary.

## Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for the County of Los Angeles, the State and the United States for the period 2013 through 2017.

### COUNTY OF LOS ANGELES Effective Buying Income 2013 through 2017

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2013	City of Santa Clarita	\$4,738,480	\$64,896
	Los Angeles County	205,133,995	45,013
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Santa Clarita	\$5,055,485	\$67,786
	Los Angeles County	214,247,274	46,449
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Santa Clarita	\$5,395,573	\$70,101
	Los Angeles County	231,719,110	48,950
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Santa Clarita	5,709,673	72,551
	Los Angeles County	243,502,324	50,236
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043
2017	City of Santa Clarita	6,112,241	77,800
	Los Angeles County	261,119,300	54,720
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735

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**APPENDIX B**

**SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

## **APPENDIX C**

### **FISCAL YEAR 2016-17 COMPREHENSIVE ANNUAL FINANCIAL REPORT**

## **APPENDIX D**

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

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
**WILLIAM S. HART JOINT SCHOOL FINANCING AUTHORITY**  
**Lease Revenue Bonds, Series 2018**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the William S. Hart Union High School District (the “District”), on behalf of itself and the William S. Hart Joint School Financing Authority, in connection with the issuance of the bonds captioned above (the “Bonds”). The Bonds are being issued pursuant to a Trust Agreement dated as of August 1, 2018 (the “Trust Agreement”), by and between the District and ZB, National Association dba Zions Bank, as trustee (the “Trustee”). The District hereby covenants and agrees as follows:

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

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

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

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

“*Dissemination Agent*” means Cooperative Strategies, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

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

“*Official Statement*” means the final official statement dated \_\_\_\_\_, 2018, executed by the District in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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



### Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2019, with the report for the 2017-18 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that if the audited financial statements of the School District are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements, and the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, when they become available. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the District, file a report with the District and the Participating Underwriter certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following documents and information:

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited final statements of the District, the Annual Report shall also include financial and operating data with respect to the District for preceding fiscal year, in format substantially similar to that provided in certain corresponding tables and charts in the Official Statement, as follows:

(i) comparison of budgeted and actual General Fund revenues, expenditures and fund balances;

- (ii) assessed valuation history;
- (iii) District's share of net pension liability;
- (iv) Net OPEB liability;
- (v) summary of investments;
- (vi) to the extent not summarized in the Audited Financial Statements, a schedule of General Fund long term debt, indicating type of issue, final maturity, interest rate range, original issue amount, indenture fund balances as of the end of the fiscal year to which the report relates and principal amount outstanding as of the end of the fiscal year to which the report relates; and
- (vii) a description of any events of default under the Lease Agreement.

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

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

#### Section 5. Reporting of Listed Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

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

- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District, or the sale of all or substantially all of the assets of the District (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional Trustee or the change of name of the Trustee, if material.

(b) Upon the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Upon occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

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

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the

Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be Cooperative Strategies, LLC.

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

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

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

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

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure

Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Trustee, the Bond owners or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: \_\_\_\_\_, 2018

WILLIAM S. HART UNION HIGH SCHOOL  
DISTRICT

By: \_\_\_\_\_  
Erin Lillibridge,  
Chief Financial Officer

AGREED AND ACCEPTED:  
Cooperative Strategies, LLC,  
as Dissemination Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: William S. Hart Joint School Financing Authority

Name of Obligated Person: William S. Hart Union High School District

Name of Bond Issue: William S. Hart Joint School Financing Authority Lease Revenue Bonds,  
Series 2018

Date of Issuance: \_\_\_\_\_, 2018

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate dated \_\_\_\_\_, 2018, executed by the Obligated Person and countersigned by Cooperative Strategies, LLC, as dissemination agent. The Obligated Person anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

Cooperative Strategies, LLC

By: \_\_\_\_\_  
Its: \_\_\_\_\_

## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the Authority (the “Issuer”) nor the Trustee (the “Agent”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

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

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding

company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

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

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

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

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

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to the Agent's DTC account.

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

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

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