

**NEW ISSUE—BOOK-ENTRY-ONLY****SENIOR AND SUBORDINATE BONDS' RATINGS: Moody's: "MIG1"**

2009-0519 thru 09-0685

**S&P: "SP1+"****(See "RATINGS" herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest on the Bonds and excluded from gross income may depend on the taxpayer's election under Internal Revenue Service Notice 94-84. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.*

**\$478,080,000**

**CALIFORNIA SCHOOL CASH RESERVE  
PROGRAM AUTHORITY  
2009-2010 SENIOR BONDS, SERIES A**

**\$53,125,000**

**CALIFORNIA SCHOOL CASH RESERVE  
PROGRAM AUTHORITY  
2009-2010 SUBORDINATE BONDS, SERIES A**

**(Sponsored by California School Boards Association Finance Corporation)****Dated: Date of Delivery****Due: July 1, 2010**

The 2009-2010 Senior Bonds, Series A (the "Senior Bonds"), and the 2009-2010 Subordinate Bonds, Series A (the "Subordinate Bonds," and together with the Senior Bonds, the "Bonds") will be issued by the California School Cash Reserve Program Authority (the "Authority") as fully registered Bonds and, when issued, will be registered in the name of Cede & Co., as holder of the Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. **PURCHASERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR INTEREST IN THE BONDS PURCHASED.** Interest on the Bonds will be payable at maturity. Principal of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.

The Bonds are being issued pursuant to the terms of an Indenture dated as of July 1, 2009 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee") for the purpose of purchasing certain 2009-2010 Tax and Revenue Anticipation Notes (the "Notes"), of the same maturity issued by the California school districts, county boards of education and community college districts identified herein (the "Districts"). The required payment of the principal of and interest on all of the Notes when due is structured to be sufficient to pay principal of and interest on all of the Bonds when due. Amounts received by the Trustee from the repayment of principal of and interest on the Notes will be applied first to repay all of the principal of and interest on the Senior Bonds and then to repay all of the principal of and interest on the Subordinate Bonds. **REPAYMENT OF THE SUBORDINATE BONDS FROM NOTE REPAYMENTS OF THE DISTRICTS IS FULLY SUBORDINATE TO THE REPAYMENT OF THE SENIOR BONDS.**

Neither the Bonds nor the Notes are subject to redemption prior to maturity

In accordance with California law, the Note of each District is payable only out of the taxes, income, revenue, cash receipts and other moneys which are received by such District for its general fund, and are attributable to the Fiscal Year 2009-2010 and legally available for payment thereof. Each Note is secured by a pledge of certain unrestricted revenues received by the District issuing such Note for its general fund attributable to the Fiscal Year 2009-2010, and each Note shall constitute a first lien and charge thereon and shall be payable from the first moneys received by such District from such pledged revenues. To the extent not so paid, each Note shall be paid from any other taxes, income, revenue, cash receipts and other moneys of such District lawfully available therefor. Each authorizing resolution (the "Resolution") requires the applicable District to transfer to the Trustee certain amounts to be deposited in a special fund from the first such amounts received by such District in those months of 2010 as described herein so that the amount on deposit in such fund by the end of the month of May 2010, taking into consideration anticipated investment earnings thereon, is equal to all of the principal and interest due on such Note at maturity, as more fully described herein. The obligation of each District is a several and not a joint obligation and is strictly limited to such District's repayment obligation under its Resolution and Note. Each District may issue additional tax and revenue anticipation notes on a parity or a subordinate basis to its Note as described herein.

**THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN FUNDS PLEDGED UNDER THE INDENTURE. THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS DOES NOT CONSTITUTE A DEBT OF THE AUTHORITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.**

Payment of the principal of and interest on the Subordinate Bonds will additionally be supported by amounts available pursuant to an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued simultaneously with the issuance of the Subordinate Bonds by U.S. Bank National Association (the "Bank"). The Letter of Credit does not support the payment of the principal of and interest on the Senior Bonds. See "LETTER OF CREDIT" herein.

**Senior Bonds Pricing Information**

Price: 101.862%	Interest Rate: 2.500%	Yield: 0.600%	CUSIP No.®: 130583CF2
-----------------	-----------------------	---------------	-----------------------

**Subordinate Bonds Pricing Information**

Price: 101.932%	Interest Rate: 2.500%	Yield: 0.530%	CUSIP No.®: 130583CG0
-----------------	-----------------------	---------------	-----------------------

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

The Bonds are offered when, as and if executed and delivered and accepted by the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP, for the Bank by its counsel, Foley & Lardner LLP, and for the Districts by Kutak Rock LLP. The Bonds, in book-entry form only, are expected to be delivered through the facilities of DTC on or about July 6, 2009, in New York, New York.

**PiperJaffray®**

Dated: June 16, 2009

\* The CUSIP numbers are included solely for the convenience of the owners of the Bonds. The Authority, the Districts and the Underwriter take no responsibility for the accuracy thereof.

No broker, dealer, sales representative or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Districts, the Underwriter or the Bank. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or any District since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained in this Official Statement has been obtained from the Districts and other sources believed by the Underwriter to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or by any District.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as 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.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

	Page
INTRODUCTORY STATEMENT .....	1
DESCRIPTION OF THE BONDS .....	3
Authority for Issuance.....	3
Denominations; Payments of Principal and Interest .....	3
Registration of Bonds.....	4
No Redemption Prior to Maturity .....	4
Book-Entry-Only System .....	4
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS .....	6
The Bonds .....	6
Additional Bonds .....	6
The Notes .....	7
Deposit and Pledge of Notes .....	9
Investments.....	10
Defaulted Notes .....	10
Additional Notes .....	11
LETTER OF CREDIT .....	12
THE AUTHORITY .....	13
APPLICATION OF PROCEEDS .....	13
INVESTMENT OF DISTRICT FUNDS .....	13
General .....	13
County Investment Pools .....	14
GENERAL DISTRICT FINANCIAL INFORMATION .....	14
Sources of Funds.....	14
County Offices of Education .....	17
District Budget Process .....	17
Accounting Practices.....	20
State Revenue Limit.....	20
State Funding of Education .....	21
State Retirement Programs.....	32
Post-Employment Benefits .....	32
State Emergency Loan Program .....	33
Assessed Valuation and Tax Collections .....	34
Constitutional and Statutory Provisions Affecting School District Revenues and Appropriations.....	36
PARTICIPATING DISTRICTS .....	42
SUMMARY OF DISTRICT RESOLUTIONS .....	47
Disposition of Proceeds of Note.....	47
Additional Payments .....	47
No Joint Obligation; Bond Owners' Rights .....	47
Defaults and Remedies.....	48
Certain Representations and Covenants of the School Districts.....	49
SUMMARY OF INDENTURE .....	51
Funds and Accounts.....	52
Costs of Issuance Fund.....	52
Proceeds Fund and Proceeds Subaccounts .....	52
Bond Payment Fund and Payment Accounts .....	53
Pool Interest Fund and Pool Principal Fund.....	54
Credit Fund.....	55

Defaults and Remedies.....	55
Exercise of Remedies.....	57
Limited Liability of the Authority .....	58
Limited Liability of the Districts .....	58
Limited Liability of the Trustee.....	58
Amendment or Supplement of Indenture.....	58
Defeasance .....	59
Investments.....	60
Removal and Resignation of Trustee.....	61
SUMMARY OF THE CREDIT AGREEMENT .....	61
Reimbursement and Other Payments.....	61
Certain Covenants.....	62
Events of Default.....	62
Remedies .....	63
TAX EXEMPTION.....	63
ABSENCE OF LITIGATION.....	65
FORWARD LOOKING STATEMENTS .....	65
RATINGS .....	66
UNDERWRITING .....	66
CERTAIN LEGAL MATTERS.....	66
TRUSTEE.....	67
RELATED PARTIES .....	67
CONTINUING DISCLOSURE .....	67
EXECUTION AND DELIVERY .....	70
APPENDIX A	DEFINITIONS OF CERTAIN TERMS
APPENDIX B	CERTAIN BACKGROUND INFORMATION FOR DISTRICTS
APPENDIX C	PROPOSED FORM OF BOND COUNSEL OPINION
APPENDIX D	THE BANK

## OFFICIAL STATEMENT

Relating to

<b>\$478,080,000</b>	<b>\$53,125,000</b>
<b>CALIFORNIA SCHOOL CASH RESERVE PROGRAM AUTHORITY</b>	<b>CALIFORNIA SCHOOL CASH RESERVE PROGRAM AUTHORITY</b>
<b>2009-2010 SENIOR BONDS, SERIES A</b>	<b>2009-2010 SUBORDINATE BONDS, SERIES A</b>

**(Sponsored by California School Boards Association Finance Corporation)**

### INTRODUCTORY STATEMENT

This Official Statement, including the cover page and appendices hereto (the "Official Statement"), sets forth certain information concerning the California School Cash Reserve Program Authority 2009-2010 Senior Bonds, Series A (the "Senior Bonds") in the aggregate principal amount of \$478,080,000 and the California School Cash Reserve Program Authority 2009-2010 Subordinate Bonds, Series A (the "Subordinate Bonds," and together with the Senior Bonds, the "Bonds") in the aggregate principal amount of \$53,125,000. The California School Cash Reserve Program Authority (the "Authority") is issuing the Bonds pursuant to an Indenture dated as of July 1, 2009 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

Pursuant to the California School Cash Reserve Program (the "Program"), participating school districts, county boards of education and community college districts (collectively, the "Districts") in the State of California (the "State") simultaneously issue their tax and revenue anticipation notes of the same maturity (the "Notes"). The net proceeds of the Bonds will be used to purchase the Notes issued by the Districts on July 6, 2009. The Notes will be assigned to the Trustee for the benefit of the registered owners (the "Owners") of the Bonds. The required payment by all Districts of the aggregate principal of and interest due on all of the Notes when due is structured to be sufficient to pay all principal of and interest on the Bonds when due. Amounts received by the Trustee from the repayment of principal of and interest on the Notes will be applied first to repay all of the principal of and interest on the Senior Bonds and then to repay all of the principal of and interest on the Subordinate Bonds. **REPAYMENT OF THE SUBORDINATE BONDS FROM THE REPAYMENTS OF THE DISTRICTS IS FULLY SUBORDINATE TO THE REPAYMENT OF THE SENIOR BONDS.** See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" herein.

Each Note of each District is issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code (the "Act") and pursuant to a resolution of issuance adopted by the governing board of each such District and, in certain situations in which such District has not established fiscal accountability status, at the election of the Board of Supervisors of the county in which such District is located, a resolution of issuance adopted by such Board of Supervisors (collectively, the "Resolution"). If the Board of Supervisors of the county in which such District is located elects not to adopt a resolution of issuance, the Note of such District will be issued pursuant to the resolution of issuance originally adopted by the District. The issuance of the Notes is expected to provide moneys to anticipate taxes, income, revenue, cash receipts and other moneys to be received by each District for its general fund attributable to its Fiscal Year beginning on July 1, 2009 and ending on June 30, 2010 (the "Fiscal Year 2009-2010"). For a list of the names of the Districts and the principal amount of the Note being issued by each District, see "PARTICIPATING DISTRICTS" herein.

Payment of the principal of and interest on the Subordinate Bonds will be secured by an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued simultaneously with the

issuance of the Subordinate Bonds by U.S. Bank National Association (the "Bank"). The Letter of Credit will be issued pursuant to a Credit Agreement dated as of July 1, 2009 (the "Credit Agreement"), entered into between the Bank and each of the Districts. The Letter of Credit does not support the payment of the principal of and interest on the Senior Bonds. See "LETTER OF CREDIT."

It is anticipated that most of the Districts will invest their Note proceeds and repayments in their respective county investment pools. See "INVESTMENT OF DISTRICT FUNDS—County Investment Pools" herein. The remainder of the Districts will invest their Note proceeds and repayments in other Permitted Investments, currently expected to consist of either money market funds as described in clauses (c) and (d) of the definition of Permitted Investments or the Local Agency Investment Fund managed by the office of the Treasurer of the State of California. See "APPENDIX A—DEFINITIONS OF CERTAIN TERMS" herein for the definition of "Permitted Investments." Although the Districts are obligated to pay principal of and interest on their Notes on the maturity date for the Notes as described herein under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," if there is a payment default in connection with any of the applicable Permitted Investments, there may not be sufficient funds in the Payment Accounts attributable to the Notes in the Bond Payment Fund on the maturity date to pay all of the principal of and interest on the Bonds.

As stated in the prior paragraph, amounts held in the Proceeds Subaccounts and the Payment Accounts of the Districts will be invested in Permitted Investments. As part of the sizing of each District's Note, each District is required to project the amount and timing of anticipated cash flow deficits, and most Districts are allowed to size their Notes for the amount of a reasonable working capital reserve permitted under federal tax law. A number of the Districts project deficits during a short period of time for the Fiscal Year 2009-2010, while other Districts project deficits to occur during longer periods of time or during several different periods of time throughout the Fiscal Year 2009-2010. A District's anticipated deficits are only projections based upon the District's expectations as of the date of issuance of its Note. A District may experience actual revenues, expenditures or deficits throughout the year that differ from the projections. It is likely that some Districts may not actually experience a projected cash flow deficit and, thus, may not draw amounts from their respective Proceeds Subaccounts. Other Districts that do experience some level of deficits may need to draw only a portion of their Note proceeds to meet the actual deficit or may not need to draw all of the portion of their Note proceeds attributable to the sizing of a reasonably required working capital reserve. In addition, some Districts may not draw amounts from their respective Proceeds Subaccounts even if they experience a deficit, because such Districts may use an alternative method of funding such deficit, especially if such deficit is for a short period of time, or such Districts may adopt an accounting allocation method permitted under federal tax law that does not require an actual draw under its Proceeds Subaccount.

**THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM CERTAIN FUNDS PLEDGED UNDER THE INDENTURE. THE OBLIGATION OF THE AUTHORITY TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS DOES NOT CONSTITUTE A DEBT OF THE AUTHORITY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.**

Each District may issue one or more additional series of tax and revenue anticipation notes during Fiscal Year 2009-10 which are payable on either a parity basis (together with its Note, the "Senior Notes") or a subordinate basis (the "Subordinate Notes") to its Note (such additional notes collectively referred to herein as "Additional Notes"). See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Additional Notes" for the conditions imposed upon each District under its Resolution for the issuance of Additional Notes. Due to the budget difficulties surrounding the State and the reliance of most Districts on funding from the State as described herein under "GENERAL DISTRICT FINANCIAL

INFORMATION—State Funding of Education,” it is probable that a substantial number of Districts will project an additional cash flow deficit during the last six months of its Fiscal Year 2009-10. It cannot be determined at this time whether or how many Districts will issue Additional Notes or what the size of the Additional Notes may be.

Upon satisfaction of certain provisions of the Indenture, the Authority may issue one or more additional series of bonds (the “Additional Bonds”) pursuant to a supplemental indenture or a separate indenture. The Additional Bonds will be payable from and secured by a pledge and assignment of a separate pool of tax and revenue anticipation notes issued by certain California school districts, community college districts and county boards of education, some of which may be Districts that have previously issued Notes. See SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Additional Bonds.”

All capitalized words, unless otherwise defined herein, shall have the meanings set forth in “DEFINITIONS OF CERTAIN TERMS” in Appendix A hereto.

Brief descriptions or summaries of the Authority, the Districts, the Bank, the Notes, the Senior Bonds, the Subordinate Bonds, the Indenture, the Letter of Credit, the Credit Agreement, the standard form of the Resolution and other documents, agreements and statutes are included in this Official Statement. The summaries or references herein to the Indenture, the Letter of Credit, the Credit Agreement, the Notes, the standard form of the Resolution and other documents, agreements and statutes referred to herein and the description of the Senior Bonds and the Subordinate Bonds included herein, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to such documents, and the description herein of the Senior Bonds and the Subordinate Bonds is qualified in its entirety by reference to the form thereof and the information with respect thereto included in the aforesaid documents. Copies of such documents are available upon request during the initial offering period from Piper Jaffray & Co., 2321 Rosecrans Ave., Suite 3200, El Segundo, California 90245, Attention: Public Finance, and thereafter from U.S. Bank National Association, 633 West Fifth Street, 24th Floor, Los Angeles, California 90071, Attention: Corporate Trust Department (the “Principal Office”).

## **DESCRIPTION OF THE BONDS**

### **Authority for Issuance**

The Authority was formed pursuant to a Joint Exercise of Powers Agreement entered into pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 of the California Government Code. See “THE AUTHORITY” herein. The Bonds are being issued by the Authority pursuant to the provisions of Article 4, Chapter 5, Division 7, Title 1 of the California Government Code.

### **Denominations; Payments of Principal and Interest**

The Bonds shall be prepared in the form of fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner of the Bonds and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Individual purchases may be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners of the Bonds or registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners (as defined herein) of the Bonds.

The Bonds will be dated the date of initial delivery and execution thereof, mature on July 1, 2010, and bear interest from the date of their initial issuance, with interest payable at maturity. The Senior Bonds shall bear interest at the rate of 2.500% per annum, and the Subordinate Bonds shall bear interest at the rate of 2.500% per annum. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable when due by wire transfer by the Trustee, as paying agent (the “Paying Agent”), to Cede & Co., as nominee for DTC, which is expected, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See “—Book-Entry-Only System” below. Interest payable on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

### **Registration of Bonds**

The Trustee is required to maintain registration books at its Principal Office for the registration of ownership, transfer and exchange of Bonds. The Trustee may deem and treat the registered owner of any Bond as the absolute owner thereof for all purposes.

### **No Redemption Prior to Maturity**

Neither the Bonds nor the Notes are subject to redemption prior to maturity.

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

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments with respect to the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds with other related transactions by and between DTC, the 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 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 Participants, as the case may be.

DTC will act as securities depository for the Bonds. The Bonds will be executed and delivered 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 certificate will be executed and delivered for the Bonds of each series in the aggregate principal amount of such series and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized 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 (the “Indirect Participants”). DTC has Standard and Poor’s highest credit rating: AAA. 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).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture.

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.

THE AUTHORITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OR INDIRECT PARTICIPANTS, PAYMENTS WITH RESPECT TO THE BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR ANY NOTICES SENT TO DTC OR ITS NOMINEE, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE AUTHORITY IS NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENTS OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE BONDS OR ANY ERROR OR DELAY RELATING THERETO.

## **SECURITY AND SOURCE OF PAYMENT FOR THE BONDS**

### **The Bonds**

All right, title and interest of the Authority in the Notes and all payments thereon are irrevocably assigned and pledged and transferred to the Trustee for the benefit of the Owners of the Bonds and, subject to the payment priority provisions of the immediately succeeding paragraph, the payments on the Notes shall be used for the punctual payment of principal of and interest on the Bonds. The required payment by all Districts of the aggregate principal of and interest due on all of the Notes when due is structured to be sufficient to pay all principal of and interest on the Bonds when due.

All payments on the Notes shall be applied first to the payment of the principal of and interest on the Senior Bonds and second to the payment of the principal of and interest on the Subordinate Bonds. Payments of principal of and interest on the Subordinate Bonds from payments on the Notes are subordinated to the payments of principal of and interest on the Senior Bonds. Principal of and interest on the Subordinate Bonds will not be paid from payments of the Notes until all of the principal of and interest on the Senior Bonds have been paid in full. Payment of principal of and interest on the Subordinate Bonds only will additionally be supported by amounts available pursuant to the Letter of Credit to be issued simultaneously with the issuance of the Bonds by the Bank. The Letter of Credit does not support the payment of the principal of and interest on the Senior Bonds. See "LETTER OF CREDIT" herein.

### **Additional Bonds**

Pursuant to the Indenture, the Authority may at any time issue one or more series of Additional Bonds pursuant to a supplemental indenture, secured by and payable from an additional pool of

Additional Notes issued by some or all of the Districts and/or other school districts, county offices of education and community college districts which are separate and distinct from the pool of Notes securing the Bonds.

### **The Notes**

Each Note of each District is issued under the authority of the Act and pursuant to such District's Resolution. The issuance of the Notes is expected to provide moneys to anticipate taxes, income, revenue, cash receipts and other moneys to be received by each District for its general fund attributable to Fiscal Year 2009-2010. Pursuant to the Indenture, the Note of each District will be purchased with proceeds of the Bonds and irrevocably deposited with and pledged and transferred to the Trustee for the benefit of the Bond Owners and the Bank. For a list of the names of the Districts expected to issue Notes and the estimated principal amount of Notes being issued by each District, see "PARTICIPATING DISTRICTS" herein.

The principal amount of each Note of a District and, if applicable, each series of Additional Notes issued by such District, together with the interest thereon, shall be payable from taxes, income, revenue (including, but not limited to, revenues from the State and federal governments), cash receipts and other moneys which are received by the District issuing its Note for its general fund, and are attributable to Fiscal Year 2009-2010 and which are legally available for payment thereof. As security for the payment of the principal of and interest on its Note and, if applicable, each series of its Additional Notes, subject to the payment priority provision of the District's Resolution, each District pledges certain unrestricted revenues, as hereinafter defined, which are received by such District for its general fund, and are attributable to Fiscal Year 2009-2010, and the principal of its Note and, if applicable, each series of its Additional Notes and the interest thereon constitute a first lien and charge thereon and are payable from the first moneys received by such District from such pledged revenues and, to the extent not so paid, shall be paid from any other taxes, income, revenue, cash receipts and other moneys of such District lawfully available therefor. The Trustee (as holder of the Notes) shall have a first lien and charge on such unrestricted revenues which are received by each District and are attributable to Fiscal Year 2009-2010, subject to the payment priority provisions of the Resolutions.

In order to effect this pledge, each District agrees under its Resolution to the establishment and maintenance of a Payment Account related to its Note and, if applicable, a separate Payment Account related to each series of Additional Notes, as a special fund of the District, held by the Trustee under the Indenture, as the responsible agent to maintain such fund until the payment of the principal of and interest on its Note, and, if applicable, its Additional Notes. Each District agrees under its Resolution to cause to be deposited (and shall request specific amounts from the District's funds on deposit with the District's county treasurer for such purpose) directly therein the first amounts received in those months as described under the caption "PARTICIPATING DISTRICTS" herein (the "Repayment Months") (and any amounts received thereafter attributable to Fiscal Year 2009-2010) until the amount on deposit in the Payment Account related to its Note, taking into consideration anticipated investment earnings thereon to be received by the maturity of such Note, is equal in the respective Repayment Months applicable to such District to the percentage of the principal and interest due on such Note at maturity applicable to such District as described under the caption "PARTICIPATING DISTRICTS" herein (such pledged amounts being hereinafter called the "Pledged Revenues"). If a District issues one or more series of Additional Notes, each District also agrees under its Resolution to cause to be deposited directly in each Payment Account a pro rata share of the first amounts received in the Repayment Months applicable thereto until the amount on deposit in each Payment Account, taking into consideration anticipated investment earnings thereon to be received by the maturity date applicable to the Note and respective series of Additional Notes is equal in the respective Repayment Months applicable to the Note and such series of Additional Notes to the percentages of the principal of and interest due with respect to the Note and such

series of Additional Notes; provided that such deposits shall be made in the following order of priority: first, pro rata to the Payment Account or Accounts attributable to any series of Senior Notes; second, pro rata to the Payment Account or Accounts attributable to any series of Subordinate Notes (except for any series of Subordinate Notes described in the next clause); and thereafter, to the Payment Account or Accounts attributable to another series of Subordinate Notes that have been further subordinated to previously issued series of Subordinate Notes, in such order of priority.

With respect to each series of Additional Notes, the number of Repayment Months determined in the related Pricing Confirmation shall not exceed six, and the amount required to be deposited in any one Repayment Month (if there are more than two) shall not exceed 50% of the principal of and interest due with respect to such series of Additional Notes at maturity; provided that the first Repayment Month of any series of Subordinate Notes shall not occur prior to the last Repayment Month of any outstanding series of Notes or Additional Notes of a higher priority without the consent of the Bank and each other credit provider for such Additional Notes of a higher priority; provided further, that if the first Repayment Month of any series of Subordinate Notes occurs in the same month as the last Repayment Month of the Notes or any series of Additional Notes of a higher priority, no deposits shall be made in the Payment Account of such Subordinate Notes until all required amounts shall have been deposited into the Payment Accounts of the Note and all outstanding series of Additional Notes of a higher priority without the consent of the Bank and each credit provider for such outstanding series of Additional Notes.

See “GENERAL DISTRICT FINANCIAL INFORMATION—State Funding of Education—Deferred Revenues” for a description as to whether payments to a District that are being deferred by the State from Fiscal Year 2009-2010 to Fiscal Year 2010-2011 will be treated as being attributable to its Fiscal Year 2009-2010 and thus subject to such pledge for the repayment of such District’s Note.

In the event that on the tenth Business Day of each such Repayment Month, a District has not received sufficient unrestricted revenues to permit the deposit into its Payment Account attributable to its Note and any Payment Accounts attributed to its Additional Notes of the full amount of Pledged Revenues to be deposited in each such Payment Account from its unrestricted revenues in such month, then the amount of any deficiency shall be satisfied and made up from any other moneys of such District lawfully available for the payment of the principal of its Note, its Additional Notes, if any, and the interest thereon, as and when such other moneys are received or are otherwise legally available in the following order of priority: first, pro rata to the Payment Account or Accounts attributable to any series of Senior Notes; second, pro rata to the Payment Account or Accounts attributable to any series of Subordinate Notes (except for any series of Subordinate Notes described in the next clause); and thereafter, to the Payment Account or Accounts attributable to another series of Subordinate Notes that have been further subordinated to previously issued series of Subordinate Notes, in such order of priority.

In addition, each District is required to file a report with the Bank and the Trustee prior to the tenth Business Day of each month, beginning the first Repayment Month, if, on the first Business Day of each such month, the total amount on deposit in each of such District’s Payment Accounts and Proceeds Subaccounts attributable to its Note and its Additional Notes, if any, is less than the amount required to be on deposit in each such Payment Account and Proceeds Subaccount for such Repayment Month. Each District filing such report must certify that the amount of any insufficiency on such date, together with any insufficiency attributable to its Additional Notes, does not exceed 75% of its unrestricted revenues yet to be received by such District less projected uncollectible, unrestricted revenues of such District for the Fiscal Year 2009-2010. In the event of such deficiency, such District shall have no further right to requisition moneys from any Proceeds Subaccounts applicable to the Note or any Additional Notes.

The term “*unrestricted revenues*” means all taxes, income, revenue (including, but not limited to, revenue from the State and federal governments), cash receipts and other moneys, intended as receipts for

the general fund (and, to the extent a portion of a Note or Additional Note of a District relates to one or more other funds, for such other funds) of each District attributable to Fiscal Year 2009-2010 and which are generally available for the payment of current expenses and other obligations of such District.

Subject to the payment priority provisions of the Resolution, any moneys placed in the Payment Account of a District attributable to its Note shall be for the benefit of the Owners of the Bonds and (to the extent provided by the Indenture) the Bank. Subject to the payment priority provisions of the Resolution, the moneys in such Payment Account shall be applied only for the purposes for which such Payment Account is created until the principal of such Note and all interest thereon are paid or until provision has been made for the payment of the principal of the Note at maturity with interest to maturity and (to the extent provided in the Indenture) the payment of all amounts owing to the Bank.

On the maturity date of each Note, the moneys in the Payment Account of each District attributable to its Note shall be transferred by the Trustee to pay the principal of and interest on each such District's Note when due. In the event that moneys in a District's Payment Account attributable to its Note or any Additional Note are insufficient to pay the principal of and interest on its Note in full when due, moneys in such Payment Account, together with moneys in the Payment Accounts of all other outstanding series of Additional Notes issued by such District, shall be applied in the following order of priority with respect to all series of Senior Notes, including the Note: first, to pay interest on such District's Note and additional Senior Notes, if any, pro rata; second, to pay principal of such District's Note and additional Senior Notes, if any, pro rata; third, to reimburse the Bank and any credit provider with respect to any other Senior Notes for payment, if any, of interest with respect to such Note and additional Senior Notes pro rata; fourth, to reimburse the Bank and any credit provider with respect to additional Senior Notes, if any, for payment of principal with respect to such Note and additional Senior Notes pro rata; fifth, to pay any Reimbursement Obligations of such District and any of such District's pro rata share of Predefault Obligations owing to the Bank and any credit provider with respect to additional Senior Notes, if any, pro rata.

### **Deposit and Pledge of Notes**

Subject to the provisions of the Indenture permitting the application thereof for or to the purposes and on the terms and conditions set forth in such Indenture, (i) all right, title and interest of the Authority in the Notes and to all payments thereon, are irrevocably assigned and pledged and transferred to the Trustee for the benefit of the Owners of the Bonds and the Bank, (ii) the payments on the Notes shall be used for the punctual payment of the interest on and principal of the Bonds or the reimbursement of drawings under the Letter of Credit, and (iii) the Notes shall not be used for any other purpose (including the payment of Additional Bonds or reimbursements to any credit enhancer related thereto so long as any of the Bonds remain Outstanding. Subject to the immediately succeeding paragraph, all payments on the Notes shall be applied first, to payment of the interest on and principal of the Senior Bonds, and second, to payment of the interest on and principal of the Subordinate Bonds (including reimbursement of the Bank).

Notwithstanding any other provisions of the Indenture, with regard to a District that has issued Additional Notes, to the extent, on any Interest Payment Date or Principal Payment Date applicable to the District's Note or Additional Notes, there is a deficiency with respect to the Note or any Additional Notes of such District and to the extent any payment on any Note or Additional Notes of such District is being made from moneys other than the proceeds of its Note or Additional Notes, the Trustee shall apportion all such payments received from such District relating to all of its Notes and Additional Notes in accordance with the priority provisions set forth in such District's Resolution, and the Trustee shall apply such apportioned payments according to the preceding paragraph with respect to each such Note and Additional Notes. See "—The Notes" above.

Subject to the immediately preceding paragraph, and to the extent permitted by law, the assignment, transfer and pledge effected by the Indenture shall constitute a lien on and security interest in the principal and interest payments of and all other rights under the Notes for the foregoing purpose in accordance with the terms of the Indenture and shall attach, be perfected and be valid and binding from and after delivery to the Authority of the Notes. Each District has approved, and the Trustee hereby accepts, such assignment of the Notes.

The Districts shall pay directly to the Trustee all principal and interest payments on the Notes. All principal and interest payments on the Notes received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by the Trustee, as and when received, in the appropriate Payment Account attributed to each such Note within the Bond Payment Fund established under the Indenture, and all moneys in such Payment Accounts shall be held in trust by the Trustee for the benefit and security of the Owners of the Bonds and the Bank to the extent provided in the Indenture.

Moneys in any District's Payment Account attributed to its Note or Additional Notes shall not be used in any manner (directly or indirectly) to make up any deficiency in any other District's Payment Account.

### **Investments**

On the date of issuance of the Bonds, most of the Districts are expected to invest certain of the proceeds of the sale of the Bonds (net of the Costs of Issuance) and repayments on their Notes (i.e., amounts held in the Proceeds Subaccounts attributable to the Notes in the Proceeds Fund and to be held in the Payment Accounts attributable to the Notes in the Bond Payment Fund) in the respective county investment pools. See "INVESTMENT OF DISTRICT FUNDS—County Investment Pools" herein. The remainder of the Districts will invest certain of the proceeds of the sale of the Bonds (net of the Costs of Issuance) and repayments on their Notes (i.e., amounts held in the Proceeds Subaccounts attributable to the Notes in the Proceeds Fund and to be held in the Payment Accounts attributable to the Notes in the Bond Payment Fund) in other Permitted Investments, currently expected to consist of either money market funds as described in clauses (c) and (d) of the definition of Permitted Investments or the Local Agency Investment Fund managed by the office of the State Treasurer. In addition, each District may invest the funds in its Proceeds Subaccount and its Payment Account attributable to its Note in other Permitted Investments. Income derived from Permitted Investments will be credited to the fund or account from which such investment was made. If there is a payment default under any of the Permitted Investments, there may not be sufficient funds available to the Trustee to pay principal of and/or interest on the Bonds when due.

### **Defaulted Notes**

In the event of default by any District in the payment of any of the principal of or interest on its Note when due, such Note shall be a Defaulted Note and the unpaid portion thereof shall be deemed outstanding and shall not be deemed paid until all amounts due thereon have been paid in full.

To the extent a payment is made by the Bank under the Letter of Credit, the Bank will succeed and be subrogated to the rights of the Owners of the Subordinate Bond (or portions thereof) paid with the proceeds of such drawing under the Letter of Credit. The unpaid portion of such Note shall be deemed outstanding and shall not be deemed paid until the conditions for cancellation of such Note as set forth in the Indenture are satisfied.

## **Additional Notes**

Each District (or the county on its behalf, as applicable) may at any time issue pursuant to its Resolution, one or more series of Additional Notes consisting of Senior Notes or Subordinate Notes (including Subordinate Notes that are further subordinated to previously issued Subordinate Notes), subject in each case to the following specific conditions, which are conditions precedent to the issuance of any such series of Additional Notes:

(1) The District shall not have issued any tax and revenue anticipation notes relating to the 2009-2010 fiscal year except (a) in connection with the Program under its Resolution, or (b) notes secured by a pledge of its unrestricted revenues that is subordinate in all respects to the pledge of unrestricted revenues under its Resolution; the District shall be in compliance with all agreements and covenants contained in its Resolution; and no Event of Default shall have occurred and be continuing with respect to its Note or any such outstanding previously issued notes or series of Additional Notes.

(2) The aggregate principal amount of its Note and Additional Notes issued and at any time outstanding under its Resolution shall not exceed any limit imposed by law, by its Resolution or by any resolution of the Board of such District amending or supplementing its Resolution (each a "Supplemental Resolution").

(3) Whenever the District shall determine to issue, execute and deliver any Additional Notes pursuant to its Resolution, the principal amount of its Additional Notes, when added to the principal amounts of its Note and Additional Notes previously issued by the District, would exceed the maximum amount authorized by its Resolution, the District shall adopt a Supplemental Resolution amending its Resolution to increase the maximum amount of borrowing as appropriate. The Supplemental Resolution may contain any other provision authorized or not prohibited by its Resolution relating to such Additional Notes.

(4) The District may issue a series of Additional Notes that are Senior Notes payable on a parity with its Note and all other series of Senior Notes of the District or that are Subordinate Notes payable on a parity with one or more series of outstanding Subordinate Notes, only if it obtains (a) the consent of the Bank and each credit provider relating to each previously issued series of Additional Notes that will be on a parity with such series of Additional Notes, and (b) evidence that no rating then in effect with respect to any outstanding series of Bonds or series of Additional Bonds, as applicable, from a Rating Agency will be withdrawn, reduced, or suspended solely as a result of the issuance of such series of Additional Notes (a "Rating Confirmation"). Except as provided in its Resolution, the District may issue one or more Series of Additional Notes that are subordinate to its Note and all previously issued series of Additional Notes of the District without the Bank or any credit provider consent or a Rating Confirmation. The District may issue tax and revenue anticipation notes other than in connection with the Program under its Resolution only if such notes are secured by a pledge of its unrestricted revenues that is subordinate in all respects to the pledge of unrestricted revenues under its Resolution.

(5) Before such Additional Notes shall be issued, the District shall file or cause to be filed the following documents with the Trustee:

(a) An opinion of counsel to the District to the effect that (A) such Additional Notes constitute the valid and binding obligations of the District, (B) such Additional Notes are special obligations of the District and are payable from the moneys

pledged to the payment thereof in its Resolution, and (C) the applicable Supplemental Resolution, if any, has been duly adopted by the District.

(b) A certificate of the District certifying as to the incumbency of its officers and stating that the requirements set forth above have been met.

(c) A certified copy of its Resolution and any applicable Supplemental Resolution.

(d) If its Resolution was amended by a Supplemental Resolution to increase the maximum amount of borrowing, the resolution of the applicable County Board of Supervisors approving such increase in the maximum amount of borrowing and the issuance of such Additional Notes, or evidence that such County Board of Supervisors has elected to not issue such Additional Notes.

(e) An executed counterpart or duly authenticated copy of the applicable purchase agreement with respect to the series of Additional Notes.

(f) A Pricing Confirmation relating to the series of Additional Notes duly executed by an authorized officer of the Districts.

(g) The series of Additional Notes duly executed by the applicable County representatives, or executed by the applicable authorized officers of the District if the County shall have declined to issue the series of Additional Notes in the name of the District, either in connection with the initial issuance of the Notes or in connection with any Supplemental Resolution increasing the maximum amount of borrowing.

(h) If the Additional Notes are to be parity Senior Notes or parity Subordinate Notes, consent of the Bank and any other credit provider required pursuant to paragraph (4)(a) above and the Rating Confirmations required pursuant to paragraph (4)(b) above.

#### **LETTER OF CREDIT**

The Letter of Credit is an irrevocable obligation of the Bank to pay to the Trustee, upon the presentation of the documents required thereby, an amount equal to the principal of and interest on the Subordinate Bonds when due. Under the Indenture, the Trustee is required to make the draw on the Letter of Credit by the time required therein and in accordance with the terms thereof, and in sufficient amounts, to make timely payment of the principal of and interest on the Subordinate Bonds when due.

The Letter of Credit will expire on the earlier of (i) the close of banking business on July 2, 2010, or (ii) the date upon which the Trustee has drawn on the Letter of Credit with respect to the payment of principal on the Subordinate Bonds or (iii) the date the Trustee surrenders the Letter of Credit to the Bank for cancellation (which the Trustee is permitted to do under the Indenture only if the Subordinate Bonds have been defeased in accordance with the Indenture).

Certain information regarding the Bank is set forth in Appendix D hereto.

## THE AUTHORITY

The California School Cash Reserve Program Authority (the “Authority”) is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, as amended, by and among Newhall Elementary School District, Delano Union School District, Sulphur Springs Union School District and Moorpark Unified School District (collectively, the “Members”), originally dated April 15, 1993, and has the power to issue, sell and deliver bonds for any purpose authorized under Articles 1, 2 and 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code. Since inception, the Program used either certificates of participation or bonds issued by the Authority. For a variety of reasons, the Program for Fiscal Year 2009-2010 has been restructured to provide for the delivery of bonds. If Additional Notes are issued, the Resolutions authorize the Authority to issue Additional Bonds. The Bonds do not constitute a lien or charge upon any funds or property of the Authority, except to the extent of the pledge of funds as set forth in the Indenture. The Bonds are not a debt of any District or any Member, and no such District or Member is liable in any manner for the payment thereof.

## APPLICATION OF PROCEEDS

The proceeds, including premium, from the sale of the Bonds are anticipated to be used in the aggregate amounts as follows:

Proceeds Fund	\$538,530,676.15
Costs of Issuance*	<u>2,602,548.45</u>
Total	<u>\$541,133,224.60</u>

\*Includes legal fees, trustee fees, rating agency fees, Letter of Credit fees and Underwriter’s discount and fees.

## INVESTMENT OF DISTRICT FUNDS

### General

Education Code Section 41001 *et seq.* provides that all school district funds, except as otherwise set forth below, shall be deposited into the county treasury to the credit of the proper fund of such district. Education Code Section 41015 provides that funds held in a special reserve fund or any surplus moneys not required for the immediate necessities of such district may be invested in investments specified in Section 16430 or 53601 of the Government Code. In addition, Government Code Section 53853(b) authorizes the Districts to direct the investment of their Note proceeds and amounts held by the Trustee under the Indenture. Accordingly, all funds of the Districts not subject to the exception, including cash receipts and other moneys received by the Districts for deposit to the general fund and other funds not described above of the Districts and attributable to Fiscal Year 2009-2010, are deposited with the applicable county treasury, to remain on deposit therein and generally available for the payment of current expenses and other obligations of the Districts until deposited into such Districts’ respective Proceeds Subaccounts and Payment Accounts.

Sections 27130 through 27137 of the Government Code require the board of supervisors in a county investing surplus funds to establish a treasury oversight committee. In general, the provisions (a) require the treasury oversight committee to consist of between three and 11 members nominated by the treasurer and confirmed by the board of supervisors; (b) prohibit committee members from raising money for the treasurer or the board of supervisors and restrict employment by members of the committee; (c) require the annual preparation of an investment policy to be reviewed and monitored by the treasury oversight committee, which shall include, among other things, a list of the type of securities

in which the county treasury may invest and the maximum term of such securities, criteria for the selection of securities brokers and dealers, the requirement that the county treasurer provide the oversight committee with an investment report as required by the board of supervisors, the manner of calculating and apportioning costs, and criteria for considering requests to withdraw funds from the county treasury; (d) require performance of an annual audit by the treasury oversight committee to ensure compliance with established investment policies; and (e) permit the treasurer to grant withdrawal requests for the purposes of investing or depositing such funds outside of the treasury pool only upon a finding by the treasurer that the withdrawal will not adversely affect the other depositors in the pool.

In addition, California Government Code provisions establish a trust and fiduciary relationship between the treasurer, those involved in the treasury investment process and the depositors, investors and participants in the treasury. Such provisions adopt the prudent investor standard for investing, establish priorities for public investing (first safety, second liquidity and finally return on the funds invested), place additional limitations on permitted treasury investments, including restricting the use of reverse repurchase agreement and certain derivative instruments, and establish additional reporting requirements for the treasury.

### **County Investment Pools**

Most, if not all, of the Districts have substantial amounts held and invested in the pooled investment fund of the county in which such District is located. Most of the Districts are expected to invest the net proceeds of their Notes and certain other funds held by the Trustee in their Proceeds Subaccounts and Payment Accounts attributable to the Notes in their respective county investment pools. Each District must notify Piper Jaffray & Co. of its election to invest such funds prior to the issuance of the Bonds. At least one District in each County (other than Tulare County) has indicated that it intends to invest such funds in its county investment pool. All of the Districts in Tulare County have indicated that they intend to invest such funds in the Local Agency Investment Fund managed by the office of the Treasurer of the State of California. Copies of the current investment policies of such counties are available upon request during the initial offering period from Piper Jaffray & Co.

Although State law requires conservative investment standards by county treasuries as described above under “—General,” there can be no assurance that a county investment pool will not suffer significant investment losses.

## **GENERAL DISTRICT FINANCIAL INFORMATION**

### **Sources of Funds**

**School Districts.** On average, school districts in the State have historically received most of their income under a formula known as the “State Revenue Limit.” This apportionment, the majority of which has historically been funded by State apportionments of basic and equalization aid with the remainder funded by local property taxes (and, in the case of community college districts and county offices of education, certain other local revenues), is allocated to the school districts based on a revenue limit per unit of the average daily attendance (“ADA”) of the school districts. ADA is determined by school districts twice a year, in December (“First Period ADA”) and April (“Second Period ADA”). Generally, the State apportionment amounts to the difference between a district’s revenue limit and its actual local property tax receipts (after any redevelopment agency tax increment or other deductions or “shifts” that may be in effect under State law).

In addition to the State Revenue Limit apportionment, the State Constitution requires the State to provide at least \$120 per ADA (or \$2,400 per district) for every school district. Through Fiscal Year

2002-2003, this provision was interpreted as requiring the State to distribute the minimum amount of State general purpose funding to districts, including districts who otherwise would have qualified for less funding due to the amount of local property tax revenues received. For some districts, local property tax revenues equal or exceed those districts' revenue limits ("Excess Tax Districts"). These districts are also known as "Basic Aid Districts."

In Fiscal Year 2003-2004, the State legislature (the "Legislature") changed its policies to provide that State Categorical Funds (as defined below) received by districts also would count towards the constitutional minimum State funding requirement. Additionally, the Legislature wanted to ensure that the Excess Tax Districts experienced the same revenue limit reductions as all other districts in Fiscal Year 2003-2004. Since Excess Tax Districts do not receive any State Revenue Limit funds, the Legislature has reduced each Excess Tax District's State categorical program support by the amount it otherwise would have received in revenue limit reductions.

A small part of a school district's budget is from local sources other than property taxes, such as developer fees, interest income, donations and sales of property. The rest of a school district's budget comes from categorical funds provided exclusively by the State and federal government. These funds are to be used for specific programs and typically cannot be used for any other purpose ("Categorical Funds").

In recent years, approximately 60% of all money for public education came from the State budget, and about 24% from local property taxes. The Legislature and the State governor (the "Governor") determine the total from both sources annually. The property tax amount, established by the Legislature in a 1978 formula following the passage of Proposition 13, has been slowly increasing, and the State's share of funding has decreased slightly. See "—Constitutional and Statutory Provisions Affecting School District Revenues and Appropriations" for a more detailed discussion on Proposition 13.

Statewide, about 8% of school districts' revenues come from the federal government, and about 6% come from local miscellaneous sources. The latter category includes such small items as food sales, money from debt repayment, interest on reserves and, in some cases, such larger items as developer fees and parcel taxes. Many school districts seek grants or contributions, which are sometimes channeled through private foundations established to solicit donations from local families and businesses.

Those few school districts that still have unused school buildings or sites can lease or sell them for miscellaneous income. Since January 1987, school districts have been able to levy a fee on new residential or commercial development within their boundaries to finance the construction or renovation of school facilities.

A significant number of school districts have secured the required two-thirds approval from local voters to levy special taxes on parcels or residences. A significant number of other districts have won voter approval, with either a two-thirds vote or a 55% majority, to sell general obligation bonds or to establish special taxing districts for the construction of schools. Use of such taxes is restricted by law.

The final revenue source is the State Lottery. Approved by voters in late 1984, the lottery generates less than 2% of total school revenues. Every school district receives the same amount of lottery funds per pupil from the State; however, these are not Categorical Funds as they are not for particular programs or children. Such funds may be spent for instructional but not capital purposes.

No other source of general purpose revenue is currently permitted for schools. Proposition 13 eliminated the possibility of raising additional property taxes for general school support, and State courts have declared that fees may not be charged for school-related activities (other than for busing services).

***Community College Districts.*** California community college districts (other than Basic Aid Districts, as described below) receive, on average, approximately 52% of their funds from the State, 44% from local sources, and 4% from federal sources. State funds include general apportionment, Categorical Funds, capital construction, the State lottery (which is less than 3%), and other minor sources. Local funds include property taxes, student fees, and miscellaneous sources.

In the past, a community college district determined its revenue allocation using a program-based model. The model was instituted in 1991, and replaced an older model based on enrollments. The model used different factors to establish support levels for five different categories at the community college district: (a) Instruction and Instructional Administration; (b) Instructional Services; (c) Student Services; (d) Operation and Maintenance of Plants; and (e) Institutional Support. Different standards were used in each category to determine fund requirements. The target allocation was obtained by calculating the exact cost of funding the specific standards in each category, on a district-by-district basis. The aggregate total of the financial needs of the five categories established the amount of funding a district would receive. State general fund moneys, local property taxes, and certain other local revenues were allocated to the community college districts based on annual State apportionments of basic and equalization aid to community college districts for general purposes computed up to a base revenue per unit of full time equivalent students ("FTES"). Such apportionments would, generally speaking, amount to the difference between a district's base revenue and its local property tax allocation and student enrollment fees. Base revenue calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all community college districts in the State.

A bill passed by the State's legislature ("SB 361") and signed by the Governor on September 29, 2006, established a new community college funding system with immediate effect. The new system includes allocation of state general apportionment revenues to community college districts based on criteria developed by the Board of Governors of the California Community Colleges (the "Board of Governors") in accordance with prescribed statewide minimum requirements. In establishing these minimum requirements, the Board of Governors will be required to acknowledge the need of each community college district to receive an annual allocation based on the number of colleges and comprehensive centers in each such district, plus funding received based on the number of credit and noncredit FTES in such district.

SB 361 also specifies that, commencing with the 2006-07 Fiscal Year, the minimum funding per FTES will be: (a) not less than \$4,367 per credit FTES (subject to cost of living adjustments funded through the budget act in subsequent fiscal years); (b) at a uniform rate of \$2,626 per noncredit FTES (adjusted for the change in cost of living provided in the budget act in subsequent fiscal years); and (c) set at \$3,092 per FTES (adjusted for the change in cost of living provided in the budget act in subsequent fiscal years) for a new instructional category of "career development and college preparation." Pursuant to SB 361, the Chancellor of the California Community Colleges (the "Chancellor") will develop criteria for one-time grants for districts that would have received more funding under the prior system or a proposed rural college access grant, than under the new system.

Local revenues are first used to satisfy community college district expenditures. The major local revenue source is local property taxes that are collected from within such district's boundaries. Student enrollment fees from the local community college district generally account for the remainder of local revenues for such district. Property taxes and student enrollment fees are applied towards fulfilling such

district's financial needs. Once these sources are exhausted, State funds are used. State aid is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the State legislature to such district. The district's Revenue Limit generally comprises the property taxes, student enrollment fees, and State aid received by such district.

"Basic Aid" community college districts are those districts whose local property tax and student enrollment fee collections exceed the revenue allocation determined by the program-based model. Basic aid districts do not receive any funds from the State. The current law in California allows these districts to keep the excess funds without penalty. The implication for Basic Aid Districts is that the legislatively determined annual cost of living adjustment and other politically determined factors are less significant in determining such districts' primary funding sources. Rather, property tax growth and the local economy become the determinant factors.

A small part of a community college district's budget is from local sources other than property taxes and student enrollment fees, such as interest income, donations and sales of property. Every community college district receives the same amount of lottery funds per student from the State; however, these are not Categorical Funds as they are not for particular programs or students. Such funds are required to be used for instructional purposes, but are prohibited for capital purposes.

### **County Offices of Education**

In each county there is a county superintendent of schools (the "County Superintendent") and a county board of education. The Office of the County Superintendent, frequently known as the "County Office of Education" (the "County Office") provides the staff and organization that carries out the activities of the County Superintendent and county board of education.

County Offices provide instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. As described below, all school district budgets must be approved by the respective County Office, and each district must provide its County Office with scheduled interim reports throughout the fiscal year. County Offices also act as enforcement entities that intervene in district fiscal matters if a district fails to meet State budget and reporting criteria.

### **District Budget Process**

*General.* The fiscal year for all California school districts, county boards of education and community college districts begins on the first day of July of each year and ends on the thirtieth day of June of the following year.

*School Districts.* School districts are required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School districts' annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain general fund reserves that can be drawn upon in the event of a resulting excess of

expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The budget must be submitted to the County Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget cycle requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the County Superintendent, or as needed.

For both dual and single budgets submitted on July 1, the County Superintendent will (a) 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, (b) determine if the budget allows the district to meet its current obligations, and (c) determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the County Superintendent will approve or disapprove the adopted budget for each school district.

Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the County Superintendent's recommendations for revision and reasons for the recommendations. The County Superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the recommendations. The committee must report its findings no later than August 20. Any recommendations made by the County Superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the County Superintendent must notify the State Superintendent of Public Instruction (the "State Superintendent") of all school districts whose budget has been disapproved.

Each dual budget option district and each single budget option districts whose budgets has been disapproved must revise and readopt its budget by August 20, reflecting changes in projected income and expenses since July 1, including responding to the County Superintendent's recommendations. The County Superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets, and not later than October 8, must approve or disapprove the revised budgets. If the budget is disapproved, the County Superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

After approving the districts' budgets, the County Superintendent will monitor, throughout the fiscal year, each school district under his or her jurisdiction pursuant to its adopted budget to determine on a continuing basis if the district can meet its current or subsequent year financial obligations. If a 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 the County Superintendent may 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 must so notify the State Superintendent, 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) develop and impose, after also consulting with the district's board, 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 any collective bargaining agreement that was entered into prior to the date upon which the County Superintendent assumed authority.

At a minimum, each school district files with its County Superintendent and the State Department of Education a First Interim Financial Report by December 15 covering financial operations from July 1 through October 31, and a Second Interim Financial Report by March 15 covering financial operations from November 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by a school board may be revised by the County Superintendent. If either the First or Second Interim Report is not "positive," the County Superintendent may require the district to provide a Third Interim Financial Report covering financial operations from February 1 through April 30 by June 1. If not required, a Third Interim Financial Report is not prepared. Each interim report shows fiscal year-to-date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the County Superintendent and the State Department of Education.

None of the Districts has received a negative certification for the First or Second Interim Reports for Fiscal Year 2008-2009. Twenty-two of the Districts have received a qualified certification for the First or the Second Interim Report for Fiscal Year 2008-2009. In order for any such District receiving a qualified or negative certification for Fiscal Year 2008-2009 to issue its Note in connection with this offering, the County Superintendent of Schools for such District must determine, pursuant to criteria established by the State Superintendent, that such District's repayment of its respective Notes is probable. All of the Districts who received a qualified or negative certification prior to the issuance of their respective Notes will have received a determination by their respective County Superintendent of Schools by the date of issuance of the Bonds that such District's repayment of its Note is probable.

***Community College Districts.*** In response to growing concern for accountability, the statewide Board of Governors and the Chancellor's Office of the California Community Colleges (the "Chancellor") have, through enabling legislation (AB 2910, Chapter 1486, Statutes of 1986), established expectations for sound district fiscal management and a process for monitoring and evaluating the financial condition to ensure the financial health of California's community college districts. In accordance with statutory and regulatory provisions, the Chancellor has been given the responsibility to identify districts at risk and, when necessary, the authority to intervene to bring about improvement in their financial condition. To stabilize a district's financial condition, the Chancellor may, as a last resort, seek an appropriation for an emergency apportionment.

The monitoring and evaluation process is designed to provide early detection and amelioration that will stabilize the financial condition of the community college district before an emergency apportionment is necessary. This is accomplished by (1) assessing the financial condition of community college districts through the use of various information sources and (2) taking appropriate and timely follow-up action to bring about improvement in a community college district's financial condition, as needed. A variety of instruments and sources of information are used to provide a composite of each community college district's financial condition, including quarterly financial status reports, annual financial and budget reports, attendance reports, annual district audit reports, district input and other financial records. In assessing each community college district's financial condition, the Chancellor will pay special attention to each district's general fund balance, spending patterns, and FTES patterns. Those

community college districts with greater financial difficulty will receive follow-up visits from the Chancellor's Office where financial solutions to the district's problems will be addressed and implemented.

### **Accounting Practices**

The accounting policies of California school districts 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 Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

### **State Revenue Limit**

The State Revenue Limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district, community college district or county board of education is entitled to receive from State and local sources. Prior to 1973-74, taxpayers in districts with low property values per pupil would have paid higher tax rates than taxpayers in districts with high property values per pupil to achieve the same level of funding. Thus, the State Revenue Limit helps to alleviate the inequities between the two types of school districts.

The State Revenue Limit is calculated three times a year for each school district, community college district and county board of education. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end-of-the-year Annual Apportionment. Calculations are reviewed by the county and submitted to the State Department of Education with respect to school districts and to the Chancellor of the California Community Colleges ("CCCs") with respect to community college districts, which, respectively, review the calculations for accuracy, calculate the amount of state aid owed to such school district or community college district, as the case may be, and notify the State Controller of the amount, who then distributes the state aid.

The calculation of the amount of state aid a school district is entitled to receive each year is basically a five-step process. First, the prior year State Revenue Limit per ADA is established, with recalculations as necessary with adjustments for equalization or other factors. Second, the adjusted prior year State Revenue Limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services, and the Statewide average State Revenue Limit per ADA for each type of ADA, yielding the school district's current year "component" revenue limits per ADA. Third, the current year's State Revenue Limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year, as the district elects. Fourth, revenue limit adjustments known as "add-ons" are calculated for each school district if such school district qualifies for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State Revenue Limit for each qualifying school district. Finally, local property tax revenues are deducted from the State Revenue Limit to arrive at the amount of state aid to which each school district is entitled for the current year based on the State Revenue Limit.

The calculation of the amount of state aid a community college district is entitled to receive is similar to that of a school district. However, in the final step, student fee revenues are deducted along with local property tax revenues from the State Revenue Limit to arrive at the amount of state aid each community college district is entitled to receive.

The calculation of the amount of state aid a county board of education is entitled to receive (through its county superintendent of schools for special classes, schools and programs operated by such county superintendent of schools) is similar to the first three steps for school districts. However, such amount is reduced by the sum of (a) the amount of the decreased contributions to the Public Employees' Retirement System, (b) local property taxes and tax revenues received during the then current fiscal year, (c) state and federal categorical aid for the fiscal year, (d) district contributions and other applicable local contributions and revenues and (e) any amounts that were required to be maintained as restricted and unavailable for expenditures. The remainder is distributed in the same manner as state aid to school districts.

### **State Funding of Education**

*General.* The California Constitution, Article XVI, Section 8, requires that the moneys to be applied by the State for support of the public school system and public institutions of higher education shall first be set apart from all State revenues. As discussed above, school districts, community college districts and county offices of education in the State receive a significant portion of their funding from State appropriations.

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 revenues available to the State general fund) and the annual State budget process.

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of ADA. Such apportionments will, generally speaking, amount to the difference between the district's revenue limit and the district's local property tax allocation (and, in the case of community college districts and county offices of education, certain other local revenues). Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among the same type of California school districts (i.e., unified, elementary, high school). State law also provides for State support of specific school-related programs including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

On November 8, 1988, California voters approved an initiative constitutional amendment and statute known as Proposition 98. This initiative made changes in the way the State funds public schools below the university level and treats excess revenues. On June 5, 1990, the California voters approved an initiative constitutional amendment known as Proposition 111, which modified the California Constitution to alter the spending limit and educational funding provisions of Proposition 98. See "—Constitutional and Statutory Provisions Affecting School District Revenues and Appropriations" for a more detailed discussion on Propositions 98 and 111.

The total amount required to be appropriated by the State for kindergarten through community college ("K-14") education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is derived from local property taxes. The total guarantee amount varies from year to year throughout the stages of any given fiscal year's budget, from the initial Governor's budget proposal to actual expenditures, as the various factors change.

***State Budget Process.*** The State budget approval process begins with the release of the Governor's proposed budget for the next fiscal year by January 10 to the Legislature. State fiscal years begin July 1. In May, the Governor submits a "May Revision" of the proposed budget that reflects updated estimates of revenues and expenditures. After a series of public hearings and the other steps in the legislative process, the budget must be approved by two-thirds vote in each house of the Legislature and submitted to the Governor. The Governor may reduce or eliminate any appropriation through the line-item veto. Although the budget is required by the Constitution to be approved no later than June 15, the budget is frequently not approved until later in the year. As described under "—2008-09 State Budget" below, the State budget was approved on September 23, 2008 for the current Fiscal Year 2008-09.

While the Constitution in large part dictates the formulae for determining the allocation of State revenues to the kindergarten through twelfth grade ("K-12") education portion of the State budget pursuant to Proposition 98 and other provisions, the Governor and Legislature still have significant leeway in deciding whether and by how much to exceed or, in effect, reduce such allocation in the actual funding of K-12 school districts, and in deciding what funds will be general purpose or restricted purpose, in the State budget process.

***State Budget for Prior Fiscal Years.*** Following a severe recession in the early 1990s, the State's financial condition improved markedly starting in 1995-1996, due to a combination of better-than-expected revenues, slowdown in growth of social welfare programs, and continued spending restraint based on actions taken in earlier years. The economy grew strongly between 1994 and 2000, generally outpacing the nation, and as a result, for the five Fiscal Years from 1995-1996 to 1999-2000, the General Fund tax revenues exceeded the estimates made at the time the budgets were enacted. These additional funds were largely directed to school spending as mandated by Proposition 98, to make up shortfalls from reduced federal health and welfare aid in 1995-1996 and 1996-1997, and to fund new program initiatives, including education spending above Proposition 98 minimums, tax reductions, aid to local governments and infrastructure expenditures.

Starting in early 2001, the State faced significant financial challenges, with an economic recession in 2001 and a sluggish recovery in 2002 and 2003 (with greatest impacts in the high technology, internet, and telecommunications sectors, especially in northern California); weakened exports; and most particularly, large stock market declines between 2000 and 2002 (with attendant declines in stock option values and capital gains realizations). These adverse fiscal and economic factors resulted in an erosion of State general fund tax revenues. The three largest State general fund tax sources are personal income, sales and use, and corporate taxes. The bulk of the revenue declines were from personal income taxes, principally from reduced capital gains realizations and stock option income. This revenue drop resulted in a shortfall between State revenues and anticipated spending demands during the Fiscal Years 2001-2002 through 2003-2004 resulting in a total accumulated deficit of approximately \$22 billion.

Two measures intended to address the cumulative budget deficit and to implement structural reform were both approved at the March 10, 2004 statewide primary election. The California Economic Recovery Bond Act (Proposition 57) authorized the issuance of up to \$15 billion of economic recovery bonds to finance the negative State general fund reserve balance as of June 30, 2004 and other State general fund obligations undertaken prior to June 30, 2004. The first two series of economic recovery bonds, which were issued on May 11, 2004, provided approximately \$8.339 billion of net proceeds to the State's general fund. A third series of economic recovery bonds in the principal amount of \$2.974 billion was issued on June 16, 2004. The Balanced Budget Amendment (Proposition 58) requires the State to adopt and maintain a balanced budget and establish a reserve, and restricts future long-term deficit-related borrowing.

During the second half of 2003 and during 2004, the recovery of the California economy broadened and strengthened (although with continuing weakness in job growth) and further moderate growth continued in 2005 through 2007. However, the State is currently experiencing a severe economic downturn, similar to the trends throughout the United States, particularly with regard to the subprime mortgage market. Due to rising mortgage interest rates between 2004 and 2006, there was significant disruption in the supply and demand in the national housing market. Since early 2007, the delinquency rate of subprime and other mortgages (particularly those with adjustable interest rates) has risen, and the foreclosure rate has increased significantly. Such losses in the mortgage market has rippled into other financial markets, as investors continue to closely examine credit risks. In addition, the unemployment rate in California currently exceeds 10%.

*The discussion below of the 2008-09 State Budget (as defined below) and the 2009-10 State Budget (as defined below) are based on estimates and projections of revenues and expenditures for the current and upcoming fiscal years and must not be construed as statements of fact. These estimates and projections are based upon various assumptions as updated in the 2008-09 State Budget and the 2009-10 State Budget, which may be affected by numerous factors, including future economic conditions in the State and the nation, and there can be no assurance that the estimates will be achieved.*

*The State has not entered into any contractual commitment with the Districts, the Underwriter or the Owners of the Bonds to provide State budget information to the Districts, the Underwriter or the Owners of the Bonds. Although they believe the State sources of information listed above are reliable, neither the Districts nor the Underwriter assumes any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including [www.dof.ca.gov](http://www.dof.ca.gov).*

**2008-09 State Budget.** The 2008-09 Budget Act (the “2008-09 State Budget”) was signed by the Governor on September 23, 2008, after an 85-day delay, and endeavored to resolve the \$24.3 billion budget deficit identified in the May Revision to the Governor’s proposed 2008-09 budget. The final 2008-09 State Budget provided a reserve of \$1.7 billion for the 2008-09 Fiscal Year, but projected a deficit of \$1.0 billion in fiscal year 2009-10. While the 2008-09 State Budget did not resolve the State’s persistent structural budget deficit, it included reform measures designed to put California on the path to fiscal stability. Expenditure reductions accounted for 47% of all the 2008-09 State Budget solutions and, as a result of these reductions, the 2008-09 State Budget held General Fund spending to virtually no growth for the 2008-09 Fiscal Year—\$103.4 billion in 2008-09 compared to \$103.3 billion in 2007-08. This reflected less than 2% growth as compared to General Fund spending in 2006-07. The 2008-09 State Budget included a reduction of \$850 million General Fund spending due to \$510 million in General Fund vetoes which reflect the Governor’s decision to reduce spending to the maximum extent possible within constitutional, statutory, and court-ordered spending requirements.

The 2008-09 State Budget included \$41.9 billion General Fund in funding for K-12 education and community colleges to fund the minimum Proposition 98 Guarantee in 2008-09. Total Proposition 98 funding for K-14 education programs increased year over year by \$1.5 billion. Total expenditures from all sources for K-12 education programs in 2008-09 were projected to be \$71.9 billion. Of this amount, \$68 billion is state, federal and local property tax funding accounted for in the 2008-09 State Budget. As a result of a steady decline in birth rates throughout the 1990s, attendance growth in California public schools is declining. For 2007-08, K-12 ADA was estimated to be 5,947,000, a decrease of 6,400 from the 2006-07 Fiscal Year. For 2008-09, K-12 ADA was estimated to decrease by an additional 31,000 to 5,916,000.

The 2008-09 State Budget also provided the following for K-12 education:

***Per-Pupil Spending.*** Total per pupil expenditures from all sources were projected to be \$12,042 in 2007-08 and \$12,152 in 2008-09, including funds provided for prior year settle-up obligations.

***Cost-of-Living Adjustments (“COLA”).*** The 2008-09 State Budget included \$244.3 million for a 0.68% COLA for school apportionments. Of this amount, \$239.8 million was for school district revenue limits, and \$4.5 million was for county office of education revenue limits. No COLA was provided for categorical programs.

***Proposition 98 Guarantee.*** For Fiscal Year 2006-07, the Proposition 98 Guarantee was \$55.2 billion, of which the General Fund share was \$41.4 billion. Local property taxes covered the balance. The Proposition 98 Guarantee for 2008-09 was projected to grow to \$58.1 billion of which \$41.9 billion would be from the General Fund.

***Property Taxes.*** The 2008-09 State Budget reflected \$14.4 billion in school district and county office of education property tax revenues in 2008-09, an increase of \$1.0 billion over 2007-08. These estimates included the impact of redevelopment agency (“RDA”) pass-through provisions enacted with the 2008-09 State Budget. Legislation was included with the 2008-09 State Budget requiring RDAs to report all payments and obligations to local taxing jurisdictions for fiscal years 2003-04 through 2008-09 to the county auditor for verification. RDAs are required to remit any outstanding obligations to local taxing jurisdictions, except that moneys owed to schools that offset State costs for apportionments are to be deposited in the county Educational Revenue Augmentation Fund. This transfer was estimated to be \$98 million in 2008-09.

***Local Educational Agency Corrective Action Assistance.*** Consistent with the requirements placed on the State and local educational agencies (“LEAs”) by the federal No Child Left Behind Act, the State Board of Education, in March 2008, approved individually differentiated sanctions and technical assistance for 97 LEAs. To ensure that this and future cohorts of corrective-action LEAs had the financial wherewithal to implement these activities, the 2008-09 State Budget included \$180 million federal Title 1 Set-Aside funds. LEAs were slated to receive one-time funding to implement a variety of improvements and reforms aimed at improving student achievement. Specifically for this first cohort of corrective-action LEAs, the budgeted resources were slated to be used to implement a new curriculum based on state academic content and achievement standards, including providing appropriate professional development based on scientifically-based research for all relevant staff.

***Emergency Repair Program.*** The 2008-09 State Budget provided a \$101 million transfer from the Proposition 98 Reversion Account to the Emergency Repair Account. This increment of funding for the program would bring total transfers to \$392 million for the purpose of funding school facility emergency repair projects.

***Student and Teacher Longitudinal Data Systems.*** The 2008-09 State Budget provided \$25.4 million to support the development of the California Longitudinal Pupil Achievement Data System and related school information services workload. Total funding for these programs since 2006-07, including support for all districts in preparing for the transition to the longitudinal system in the summer of 2010, was \$78.7 million. In addition, the 2008-09 State Budget provided \$1.2 million in federal funds to support development of the California Teacher Integrated Data System.

**Child Care.** The 2008-09 State Budget appropriated more than \$3.3 billion for the various child care programs administered by the State Department of Education, including funding for preschool, general child care centers, family child care homes, CalWORKs child care and before- and after-school programs. Total funding included \$338.3 million in one-time Proposition 98 resources to fully fund CalWORKs Stage 2 and Stage 3 child care. The 2008-09 State Budget also included \$10.9 million for growth for non-CalWORKs child care programs. A total of approximately 915,000 child care slots were funded in the budget.

**Proposition 98 Settle-Up Payments.** The 2008-09 State Budget deferred \$150 million in settle-up payments traditionally appropriated to reduce prior years' outstanding K-14 unfunded reimbursable costs for mandated programs. The 2008-09 State Budget included \$402 million in settle-up funds to continue the Quality Education Investment Act of 2006.

**California State Teachers' Retirement System.** The California State Teachers' Retirement System administers the Teachers' Retirement Fund (the "Plan"). The Plan comprises three programs: the Defined Benefit Program, the Defined Benefit Supplement Program and the Cash Balance Benefit Program. Within the Defined Benefit Program there is also a Supplemental Benefit Maintenance Account ("SBMA"), which provides annual supplemental payments in quarterly installments to retired teachers whose purchasing power has fallen below 80% of the purchasing power of an initial allowance. Currently the State makes annual General Fund contributions to the SBMA of 2.5% of teacher payroll for purchasing power protection. However, the 80% level of supplemental payments is not a vested benefit. This means that if the amount in the SBMA was not sufficient to bring purchasing power up to the 80% level, supplemental payments may have to be suspended or paid at a lower level.

California Community College ("CCC") funding totaled over \$9.2 billion, including over \$6.7 billion from General Fund and Proposition 98 sources, of which almost \$4.7 billion was from the General Fund alone. The amount budgeted from General Fund and Proposition 98 sources for CCC was 4.9% above the revised 2007-08 level. The 2008-09 State Budget increased funding for enrollment growth, funding to backfill property tax shortfalls, and continued funding for important Statewide initiatives that address the nursing shortage, career technical education, and increasing success rates for students who lack adequate preparation for college level work. In total, the 2008-09 State Budget provided General Fund and Proposition 98 related increases of over \$312 million compared to 2007-08, including \$21.6 million in one-time resources from the Proposition 98 reversion account. Student fees remained at \$20 per unit, just 22% of the national average.

Policy related adjustments for the CCC include the following:

**Career Technical Education Initiative.** The 2008-09 State Budget continued substantial investments in career technical education ("CTE"), consistent with the Governor's initiative begun in 2005-06 which sought to improve high school vocational programs that articulate with community college career programs. The 2008-09 State Budget provided over \$70 million, consisting of \$20 million in ongoing funds in the CCC budget, the second increment of \$38 million from the *CTA v. Schwarzenegger* settlement appropriated by Chapter 751, Statutes of 2006, and \$12.5 million one-time payment pursuant to trailer legislation from the Public Interest Research, Development and Demonstration Fund.

**Nurse Education Initiative.** The 2008-09 State Budget continued substantial investments to address the Statewide nursing shortage in the higher education segments and financial aid programs totaling almost \$36.6 million. This included \$28.3 million in total funding for CCCs to expand nursing enrollments and address student attrition.

**CCC Student Success Initiative.** The 2008-09 State Budget continued \$33.1 million Proposition 98 General Fund for the CCCs authorized by Chapter 489, Statutes of 2007 to increase the rate of successful outcomes for students who are not adequately prepared for college-level work.

**Sale of EdFund.** Chapter 182, Statutes of 2007 authorized the sale, or other transaction, of the Student Aid Commission's loan guarantee function and nonprofit auxiliary organization, collectively known as EdFund, in order to maximize the value of the State's assets related to implementation of the Federal Family Education Loan Program. The sale was anticipated to generate a significant amount to help balance future budgets. Although the sale has been postponed due to a variety of factors affecting the loan guaranty industry, the Administration is continuing its efforts, pursuant to trailer legislation that extends the sale authorization, and anticipates that a sale will be completed no later than the 2009-10 fiscal year.

**LAO Overview of 2008-09 State Budget.** The Legislative Analyst's Office ("LAO") released its overview of the 2008-09 State Budget (the "LAO Overview") on November 11, 2008, reporting that the State's budget situation had been worsened by a significant drop in revenues due to the sluggish economy. The LAO reported that the State's struggling economy has severely reduced expected revenues and, combined with rising State expenses, the LAO projected that the State will need \$27.8 billion in budget solutions over the 2008-09 and 2009-10 fiscal years. As to the long-term outlook, the LAO reported that the State's revenue collapse is so dramatic and the underlying economic factors are so weak that the LAO forecasted huge budget shortfalls through 2013-14 absent corrective action. From 2010-11 through 2013-14, the LAO projected annual shortfalls consistently in the range of \$22 billion. The LAO concluded that closing a projected \$28 billion budget shortfall will be a monumental task, and the LAO believed the State Legislature must take major ongoing actions by both reducing base spending and increasing revenues.

With regard to Proposition 98 funding, the LAO projected that, assuming no midyear action is taken in 2008-09, the Proposition 98 minimum guarantee for 2009-10 would be \$54.3 billion, which is \$3.8 billion, or 6.4%, less than the amount budgeted for the current fiscal year. The LAO projected a small decline in K-12 attendance and a significant decline in General Fund revenues. The LAO Overview suggested that, because of the significant year-to-year decrease, funding at the minimum guarantee would require significant reductions in K-14 spending. Specifically, the LAO projected the Proposition 98 guarantee will grow by 2.4% in 2010-11, followed by year-to-year increases of about 5% throughout the remainder of the forecast period. The funding increases in the latter years of the forecast period are attributable to healthier growth in the California economy. Not only is the Proposition 98 funding requirement projected to decrease by \$3.8 billion in 2009-10, but Proposition 98 baseline costs are projected to increase by \$3.6 billion due to inflation and enrollment adjustments. These estimates, however, assume no midyear action is taken. If the State does reduce 2008-09 Proposition 98 spending and/or raise additional revenues during the special session, then some portion of the projected 2009-10 shortfall would be eliminated. How the State chooses to address any remaining 2009-10 shortfall will have a significant impact on future Proposition 98 funding. The future funding situation will be heavily affected by the particular mix of one-time solutions, ongoing spending reductions, and ongoing revenue increases ultimately reflected in the final budget package.

The LAO Overview reported that K-12 funding from all sources remains relatively flat, with total funding in 2008-09 (\$71.9 billion) increasing only \$281 million, or 0.4%, compared to 2007-08. Ongoing K-12 Proposition 98 spending in 2008-09 increased to \$51.6 billion, which is about \$1.3 billion more than the spending level for 2007-08. However, this increase was reported to be offset by a \$1 billion year-to-year decrease in spending from all other fund sources, a decrease mostly explained by the large amount of one-time funding included in the 2007-08 Budget.

With respect to CCCs, the LAO Overview reported that the 2008-09 State Budget provided \$6.4 billion in ongoing Proposition 98 funding, which is 10.9% of total Proposition 98 appropriations. This is \$240 million, or 3.9%, more than the revised 2007-08 level; however, this year-to-year increase falls to about 2.7% when factoring in additional funding that was provided on a one-time basis for 2007-08 to address a shortfall in CCC local property taxes. In addition, the LAO reported that the final 2008-09 State Budget provides that the CCC system receives an augmentation of \$114 million to fund new enrollment growth of 2%, or about 23,000 FTE students, plus \$40 million to fund a 0.68% base increase for CCCs. The enrollment and base budget increases apply only to CCC apportionments (general purpose moneys), and not to categorical programs. The LAO Overview confirmed that the 2008-09 State Budget made no change to student fee levels, which remained at \$20 per unit, and calculated that these fees are expected to generate over \$290 million in revenue for the CCC system.

***Budget Reform and 2009-10 State Budget.*** On November 6, 2008, the Governor called a special session of the State Legislature and announced a plan to address a projected revenue shortfall for Fiscal Year 2008-09, estimated as of December 10, 2008 to be approximately \$14.8 billion, as well as substantial shortfalls in future fiscal years. This legislative special session ended without a resolution. Coinciding with the swearing-in of the new Legislature on December 1, 2008, the Governor declared a fiscal emergency for the State, allowing him to call several Proposition 58 legislative special sessions to address the shortfall.

On February 19, 2009, the State Legislature passed a budget-balancing reform signed by Governor Schwarzenegger on February 20, 2009 (the “2009-10 State Budget”), intended to close the State’s projected \$41.6 billion deficit through June 2010. The 2009-10 State Budget, enacted nearly five months ahead of the constitutional deadline, along with a number of accompanying measures, was designed to reduce the deficit forecasts and to achieve budget solutions for both the 2008-09 and 2009-10 fiscal years. The Department of Finance has reported that California’s chronic and cyclical budget crises are largely attributable to the use of higher than normal revenues to create permanent, ongoing spending commitments and tax cuts. The 2009-10 State Budget and accompanying legislation are designed to end this cycle by preventing government from spending revenue above the long-term trend line and by creating a substantial “Rainy Day” fund of up to 12.5% of General Fund revenue for use only during times when revenue is insufficient to fund a moderate, population-and-inflation-based growth in spending.

The 2009-10 State Budget addresses the State’s \$42 billion deficit through \$15 billion in State spending reductions, \$12.8 billion in temporary tax increases (including an increase in the vehicle license fee and an increase in State sales and income taxes), \$11.4 billion in borrowing and a \$1 billion reserve. The legislation includes revisions to the 2008-09 State Budget and adoption of the 2009-10 State Budget, covering a 17-month period ending July 1, 2010, addressing spending reductions, revenue increases, economic stimulus and increasing governmental efficiency. Certain measures required voter approval at a special State-wide election held on May 19, 2009. As discussed below in “—May 19, 2009 Election,” these measures failed

The Department of Finance, the State Treasurer, and the State Controller are developing a cash management plan to facilitate a return to normal State government payments; however, some payments may be delayed into the 2009-10 fiscal year. The 2009-10 State Budget requires the Director of Finance and the Treasurer to conduct a public meeting and to determine by April 1, 2009 how much General Fund benefit the State will receive in 2008-09 and 2009-10 from the receipt of the recently enacted American Recovery and Reinvestment Act of 2009. If the determination at that time is \$10 billion or greater, the expenditure solutions labeled as “trigger reductions” will not go into effect, nor will the additional 0.125% surcharge on the income tax rate. The Department of Finance estimate, released prior to the

April 1, 2009 deadline, was approximately \$8 billion, which results in the reductions and income tax surcharge taking effect.

Features of the 2009-10 State Budget and accompanying legislation as they pertain to education funding and programs include the following:

(a) ***Proposition 98 Reduction.*** An expenditure reduction of \$8.4 billion in Proposition 98 funding included in the 2009-10 State Budget reflects the reduction in the Proposition 98 minimum guarantee that results from the severe decline in General Fund revenues. In order to protect classroom funding during the financial downturn, the 2009-10 State Budget includes \$3.24 billion of deferrals from the 2008-09 Fiscal Year to July of the 2009-10 fiscal year from school district revenue limits, K-3 class size reduction and community college apportionment payments.

(b) ***Allocation of Proposition 98 Funding.*** The 2009-10 State Budget contains reductions and changes in the way the total Proposition 98 funding is allocated to various programs: (i) eliminating the \$286.9 million COLA included in the 2008-09 State Budget; (ii) reducing \$943.8 million to school district and county office of education revenue limits in 2008-09, and making an additional reduction to revenue limits of \$267.5 million in 2009-10; and (iii) reducing \$1,211.3 million from most all K-12 categorical programs, which consists of a reduction of \$943.8 million in 2008-09, and an additional reduction of \$267.5 million in 2009-10. In order to increase school districts' flexibility to accommodate these reductions, the 2009-10 State Budget provides 100% flexibility for 42 of the 61 categorical programs.

(c) ***Long-term Funding for Education.*** The severe decline in the State's General Fund revenues has impacted K-14 funding by dramatically reducing the Proposition 98 guarantee. In the long term, given the manner in which Proposition 98 is tied to General Fund revenues, the guarantee would return to historical levels. The 2009-10 State Budget recognizes the need to plan for this transition over a number of years by scheduling increases in K-14 funding as part of the budget reform package. This mechanism uses one-half of the annual 3% General Fund transfer into the "Rainy Day" fund to provide education over a period of several years.

(d) ***Educational Categorical Flexibility.*** To assist school districts to manage their budgets during these economic times, the 2009-10 State Budget and accompanying legislation provides relief in connection with 42 categorical programs. This flexibility will be provided through fiscal year 2012-13, allowing school districts to shift funds to meet their highest priority needs. In addition, the 2009-10 State Budget and accompanying legislation proposes to significantly reduce the penalties associated with K-3 Class Size Reduction through 2011-12, allowing districts to retain up to 70% of funding if pupil-to-teacher ratios increase more than 25 to 1, which will provide greater local flexibility. This proposal will not include programs that are protected under federal law or that were approved through a voter initiative. The most notable programs in this category include Special Education, Child Nutrition, Child Care and the After School Education and Safety Program.

(e) ***CCCs.*** The 2009-10 State Budget rescinds the previously appropriated COLA funding for CCCs totaling \$39.8 million, defers \$340 million in January, February, March and April apportionment payments until July 2009, reschedules the existing \$200 million deferral of apportionment payments from July until October, defers current year funding of three community college mandates and provides an additional \$185.4 million in 2009-10 to fund 3% enrollment growth.

Additional reductions featured in the 2009-10 State Budget and accompanying legislation in other programs include reductions in Medi-Cal and Supplemental Security Income/State Supplementary Payment spending, California Work Opportunities and Responsibility to Kids programs, certain other mental health and health and human services programs, as well as reductions in State employee compensation. Legislation accompanying the 2009-10 State Budget includes measures designed to help stimulate the State's economy through changes in the manner in which corporate taxes are calculated, a temporary new job creation credit for small businesses under personal income and corporate tax laws, a trailer bill creating a home buyers' credit against personal income tax liability, and measures to authorize state and local transportation agencies to seek private sector financing to build transportation projects in addition to those financed with public funds.

***Impact on Districts.*** While the Districts are currently reviewing the impact of the 2008-09 State Budget and 2009-10 State Budget on their operations, it seems certain that the adoption of the spending reductions included in the 2008-09 State Budget and 2009-10 State Budget, together with the continuing revisions thereto, will have a significant impact on funding for the Districts and their programs. For more detailed information regarding specific K-14 program reductions set forth in the State Budgets, see the California Department of Finance's website: [www.dof.ca.gov](http://www.dof.ca.gov).

***Recent LAO Reports.*** On March 13, 2009, the LAO updated its revenue forecast and projected that revenues will fall short of the assumptions in the 2009-10 State Budget by \$8 billion. On May 7, 2009, the LAO stated that the failure of the three propositions at the May 19, 2009 election together with a continued weakness in revenue could result in an unprecedented short-term borrowing need by the State during the 2009-10 Fiscal Year unless the Legislature takes action to help balance the 2009-10 State Budget. According to the LAO, the cash flow borrowing needs could exceed \$23 billion, an amount which could be problematic for the State to issue. One action described by the LAO for the Legislature to reduce the size of the borrowing includes additional payment deferrals with respect to educational funding.

***Governor's May Budget Revision.*** Under California law, in May of each year the Governor issues a revised budget with changes he or she can support, based on the debate, analysis and changes in the economic forecasts. On May 14, 2009, the Governor released two alternative proposals (the "May Revision") to revise the State budget to address the State's pending deficit. The specific proposal which the Governor will support depends, in part, on the result of certain statewide ballot measures which were rejected by the voters on May 19, as discussed in the following paragraph. The May Revision projects a budget shortfall of over \$21 billion if the measures fail at the May 19 election. In order to balance the State budget, the Governor has proposed various expenditure cuts, borrowings and other measures. Under the May Revision, such cuts and other measures could include reducing State payments to school districts by reducing the school year by 5 to 7.5 days, deferring additional State payments to districts, increasing class sizes and laying off additional teachers as needed to absorb reduced funding levels. In addition, the May Revision provides that it may be necessary to move certain K-12 payments from the scheduled payment dates to later dates during the fiscal year 2009-10. Further details concerning the May Revision are expected to be available at <http://www.ebudget.ca.gov/>. The Districts cannot predict the exact impact any such budget reductions will have on its General Fund operating budget for the coming fiscal year.

***May 19, 2009 Election.*** The 2009-10 State Budget depended on the passage of three ballot measures to provide nearly \$6 billion in budget solutions:

- \$5 billion from the borrowing of future lottery profits (Proposition 1C);

- Up to \$608 million by redirecting dedicated childhood development funds (Proposition 1D); and
- Approximately \$230 million by redirecting dedicated mental health funds (Proposition 1E).

The special election for these ballot measures occurred on May 19, 2009, and all three measures were defeated. Because the voters rejected these three measures, the 2009-10 State Budget will not be in balance based on assumptions made when enacted. Consequently, the Legislature and the Governor are likely to need to agree to billions of dollars of additional spending cuts, tax increases or other budgetary solutions to bring the budget back into balance. It is not known at this time what effect such actions could have on funding for K-14 during the 2009-10 fiscal year.

***Deferred Revenues.*** The State is deferring a substantial amount of payments owed to the Districts in fiscal year 2009-10 to fiscal year 2010-11 (the “Deferred Revenues”). Although the State, in some cases, treats such Deferred Revenues as expenditures for the fiscal year in which they are made, the Districts are authorized under State law to elect to treat such deferrals as either revenues in the current fiscal year or the next fiscal year, when they are received. Although not free from doubt, assuming that the applicable District in fact treats the Deferred Revenues as accrued in fiscal year 2009-10 for budgetary, financial reporting and all other relevant purposes, such District should be able to treat its Deferred Revenues as revenues attributable to Fiscal Year 2009-10 and thus subject to the pledge for the repayment of its Note.

The Districts are unable to predict what further actions might be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the exact impact such actions or the 2009-10 State Budget and accompanying legislation will have on State revenues available for Districts’ purposes. The State Budget will continue to be affected by future national and State economic conditions and other factors over which the Districts have no control.

***Future State Budgets.*** Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. The State Legislature failed to pass a State budget for Fiscal Year 2008-09 until September 23, 2008. Accordingly, many State payments were held until the 2008-09 State Budget was adopted, including some scheduled to be made to school and community college districts under Proposition 98 and receipt of State Categorical Funds by the Districts were in some cases delayed until the State budget was adopted for the 2008-09 Fiscal Year. The events leading to the inability of the State Legislature to pass a budget in a timely fashion for several past fiscal years are not unique, and the Districts cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of each District’s budget, it will be necessary for such District’s staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor’s May Revision for that year, and determine whether such District’s budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures to resolve its current projected budget deficits for the 2008-09 and 2009-10 fiscal years which would, in turn, adversely affect the Districts. Accordingly, the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the Legislature and Governor to deal with changing State revenues and expenditures, cannot be predicted. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Districts have no control.

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

**State Funding of Schools Without a State Budget.** On May 29, 2002, the Court of Appeal of the State of California for the Second Appellate District in *White v. Davis et al.* (combined with *Howard Jarvis Taxpayers Association et al. v. Westly* in appeal) held, among other things, that absent adoption of a budget bill or an emergency appropriation by the Legislature, the State Controller may disburse State funds authorized by (a) a continuing appropriation enacted by the Legislature, (b) a self-executing provision of the State constitution, including payment of certain funds for public schools under Article XVI, Section 8.5 of the constitution, and (c) mandate of federal law, such as prompt payment of minimum wage and overtime compensation mandated by the federal Fair Labor Standards Act and benefits under federal food stamp, foster care and adoption, child support and child welfare programs. The Court of Appeal specifically concluded that Article XVI, Section 8.0 does not constitute a self-executing authorization to disburse revenue limit apportionment to school districts; legislative appropriation is required for revenue limit disbursement. On May 1, 2003, the California Supreme Court in its decision in *White v. Davis et al.* granted review to two other matters and let these particular conclusions of the Court of Appeal stand without ruling on them.

During the 2003-2004 State budget impasse, the State Controller announced that only "payments of prior year obligations, constitutional authorizations, federal mandates and continuous legislative appropriations would be made." The State Controller concluded that revenue limit apportionments to school districts, under provisions of the Education Code implementing Article XVI, Section 8 of the State constitution, are authorized as continuous legislative appropriations, so disbursed these funds without a budget bill or emergency appropriation enacted. The State Controller did not disburse certain categorical and other funds to school districts until the 2003-2004 State Budget Act was enacted.

**Tax Shifts and "Triple Flip" Legislation.** Assembly Bill No. 1755 ("AB 1755"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required shift to \$135 million.

Legislation commonly referred to as the "Triple Flip" was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorizes the issuance of \$15 billion in bonds to finance the State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction will be directed to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provides for property taxes in the Educational Revenue Augmentation Fund ("ERAF") to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds were repaid, which will not occur for several years.

**The Budget Act and Proposition 98.** The effect of Proposition 98 has proven especially difficult to accurately predict when State general fund revenues do not meet expectations. For several years in the early 1990s, as the State's economy was sliding into a recession, the State's budget allocations for school

and college districts proved to be more than Proposition 98 would have required. The excess amounts were later treated by the State as advances to school and college districts against subsequent years' Proposition 98 minimum funding levels, resulting in aggregate funding reductions of over \$1 billion in those years. In 2002-2003 and 2003-2004, the worsening State financial position again resulted in retroactive adjustments as well as current-year cuts. The Legislative Analyst reports that legislative actions in mid-Fiscal Year 2002-2003 eliminated \$2.5 billion from budgeted Proposition 98 funding through a combination of deferral of expenditures to Fiscal Year 2003-2004, use of one-time funds, captured program savings, and other cuts. In general, deferral of education expenditures and reductions in the components of revenue limit funding have the effect of reducing the base from which future Proposition 98 minimum funding levels are calculated. Legislation enacted in March 2003 permanently defers the appointment of Proposition 98 funds scheduled each year in June to each July 2, and thus from one fiscal year to the next. These and other techniques significantly reduce the minimum guarantee requirement for Fiscal Years 2003-2004 and beyond.

### **State Retirement Programs**

School districts participate in the State of California Teachers Retirement System ("STRS"). STRS covers all full-time and most part-time employees with teaching certificates. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. School districts also participate in the State of California Public Employees Retirement System ("PERS"). PERS covers all classified personnel, generally those employees without teaching certificates, who are employed at least four hours per day. In order to receive PERS benefits, an employee must be at least 50 years old and have had five years of covered PERS service as a public employee.

Contribution rates to PERS varies with changes in actuarial assumptions and other factors, such as changes in benefits and investment performance, and are set by a State retirement board for PERS. The contribution rates are set by statute for STRS at a constant 8.25% of salary. STRS has a substantial State-wide unfunded liability. Under current law, the liability is determined at the State level and is not calculated for each individual school district.

### **Post-Employment Benefits**

In addition to the pension benefits described above, many school districts, community college districts and county offices of education provide post-employment health benefits for eligible employees upon retirement. The amount and length of these benefits vary dramatically among those districts offering such benefits. In addition, the amount and length of such benefits typically depend on a variety of factors, including age at retirement, length of service, and status as a certificated, classified or management employee.

Implementation of GASB Statement No. 45 regarding reporting of post-employment health benefit liabilities will be phased in for Districts over time. Districts with total revenues over \$100 million will be required to report such unfunded liabilities commencing for the Fiscal Year 2007-2008. The reporting will be required for Districts with total revenues between \$10 million and \$100 million commencing for the Fiscal Year 2008-2009, and for Districts with total revenue of less than \$10 million commencing for the Fiscal Year 2009-2010. Information related to any actuarial studies to determine the estimated liability for such post-employment liability was requested from each of the Districts. To the extent a District affirmatively responded that it has completed such a study (which may not have been completed in accordance with GASB Statement No. 45), the amount of such estimated liability is noted in Appendix B.

## **State Emergency Loan Program**

**General.** The California Education Code provides that a governing board of a school district that determines during a fiscal year that its revenues are less than the amount necessary to meet its current year expenditure obligations may request an emergency apportionment from the State through the State Superintendent of Public Instruction (the “State Superintendent”).

As a condition to the making of any such emergency apportionment, the following requirements must be met:

(a) The district requesting the apportionment must submit to the county superintendent of schools having jurisdiction over the district: (i) a report issued by an independent auditor and approved by the county superintendent of schools on the financial conditions and budgetary controls of the district; (ii) a written management review conducted by a qualified management consultant and approved by the County Superintendent; and (iii) a fiscal plan adopted by the governing board to resolve the financial problems of the district.

(b) The County Superintendent of schools must review, and provide written comment on, the independent auditor’s report, the management review and the district plan. If the county superintendent disapproves the plan, the governing board must revise the district plan to respond to the concerns expressed by the County Superintendent.

(c) Upon his or her approval of the district plan, the County Superintendent must submit copies of the report, review, plan and written comments to the State Superintendent, the Auditor General, the Joint Legislative Budget Committee, the Director of Finance and the State Controller.

(d) The State Superintendent must review the reports and comments submitted to him or her by the County Superintendent and must certify to the Director of Finance that the action taken to correct the financial problems of the district is realistic and will result in placing the district on a sound financial basis.

(e) The district must develop a schedule to repay the emergency loan and submit it to the County Superintendent, who after reviewing and commenting on it submits it to the State Superintendent for approval or disapproval. Upon the approval of the repayment schedule and of the other reports, reviews, plans and the appointment of the trustee (as described below), the State Superintendent must request the State Controller to disburse the proceeds of the emergency loan to the district.

(f) The district requesting the apportionment must reimburse the County Superintendent of schools for the costs incurred by the superintendent in performing such duties.

In addition, the acceptance by the district of the apportionments made pursuant to the Education Code constitutes the agreement by the district to the following conditions:

(a) The State Superintendent shall appoint a trustee who shall have recognized expertise in management and finance. The State Superintendent shall establish the terms and conditions of the employment, including the remuneration of the trustee and the trustee shall serve at the pleasure of, and report directly to, the State Superintendent until the loan is repaid and the district has adequate fiscal systems and controls in place. Before the district repays its loan, the recipient of the loan shall select an auditor from a list established by the State

Superintendent and the State Controller to conduct an audit of its fiscal systems. If the fiscal systems are deemed to be inadequate, the State Superintendent may retain the trustee until the deficiencies are corrected.

(b) The trustee appointed by the State Superintendent shall monitor and review the operation of the district. During the period of his or her service, the trustee may stay or rescind any action of the local district governing board that, in the judgment of the trustee, may affect the financial condition of the district. The trustee shall approve or reject all reports and other materials required from the district as a condition of receiving the apportionment.

On or before October 31 of the year following receipt of an emergency apportionment, and each year thereafter until the emergency apportionment is repaid, the governing board of the district shall prepare, under the review and with the approval of the trustee, a report on the financial condition of the district which shall be transmitted to the County Superintendent, the State Superintendent and the State Controller. The report shall include all of the following information: (a) specific actions taken to reduce expenditures or increase income, and the cost savings and increased income resulting from those actions; (b) a copy of the adopted budget for the current fiscal year; (c) reserves for economic uncertainties; (d) status of employee contracts; and (e) obstacles to the implementation of the adopted recovery plan.

The emergency apportionment is required to be repaid to the State over a five-year period, or less, together with interest at a rate determined in accordance with the Education Code.

The Legislature expressly provides that these provisions of the Education Code are not intended to authorize emergency loans to school districts for the purpose of meeting cash-flow requirements pending the receipt of local taxes and other funds. Furthermore, no such emergency apportionment will be made unless funds have been specifically appropriated therefor by the Legislature.

***Butt v. State of California.*** In December 1992, the California Supreme Court, in *Butt v. State of California*, upheld a lower court's ruling that the State could not refuse to fund education in the Richmond School District ("Richmond") after Richmond decided to terminate classroom instruction six weeks before the scheduled end of the school year due to lack of funds. The Court upheld the lower court's ruling that the State constitution requires the State to ensure a full year's education for children in all school districts. However, because the Court overturned that portion of the original order relating to the source of State funds used to make an emergency loan to Richmond, the decision leaves unclear just where the State must find funds to make any future loans of this kind. No prediction can be made at this time as to what actions ultimately will be taken by the Legislature and the Governor to provide emergency funds to districts under court orders such as that imposed in *Butt v. State of California*.

## **Assessed Valuation and Tax Collections**

***Ad valorem Property Taxation.*** Prior to Fiscal Year 1981-1982, County Assessors generally assessed all properties at 25% of full cash value (market value). The State Board of Equalization assessed public utility properties at 25% of full cash value. Since Fiscal Year 1981-1982, all property has been assessed using full cash value. The Constitution of the State and various statutes provide exemptions from *ad valorem* property taxation for certain classes of property, such as churches, colleges, nonprofit hospitals and charitable institutions.

State law allows exemptions from *ad valorem* property taxation of \$7,000 of full owner-occupied dwellings. However, the State reimburses all local taxing authorities for the loss of revenues imputed to these exemptions.

The California Community Redevelopment Law authorizes redevelopment agencies to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuations of properties within designated project areas. In effect, local taxing authorities, such as the Districts, in such project areas, realize tax revenues only on the frozen base assessed valuations.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in a county as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property that is sufficient, in the opinion of a county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Counties levy a 1% property tax on behalf of all taxing agencies in the counties. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, each county and all other taxing entities in each county receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (new construction, change of ownership, and inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county-wide or less than city-wide special districts.

***Secured Real Property Taxes.*** State and county taxes on real property are due and become delinquent each year in all counties of the State as follows:

The first real property tax installment is due November 1 and becomes delinquent after December 10. The second real property tax installment is due February 1 and becomes delinquent after April 10. The entire tax may be paid at the time the first installment is due.

For taxes due and payable in Fiscal Year 2009-2010, a penalty of 10% is added to the first installment if not paid on or before December 10; and 10% to the second installment if not paid on or before April 10 together with \$10.00 of costs also added for each described parcel. At the end of the first year of delinquency, property is sold to the State.

In redeeming property on the secured rolls for delinquent taxes, penalties are added at the rate of 1-1/2% per month, with a \$15.00 redemption fee on each separately valued parcel sold to the State. If not redeemed at the end of five years from July 1 of the year first becoming delinquent, the property will be deeded to the State and may thereafter be sold at public auction by the county tax collector.

***Unsecured Property Taxes.*** Taxes on property assessed on the unsecured roll as unsecured property (separate from real estate) are billed as soon as assessed. Taxes on the roll as of August 31, if unpaid, become delinquent on October 31. A 10% penalty attaches to the taxes when they become delinquent and, if unpaid at the end of the second succeeding month, a 1-1/2% penalty is added on the first day of each month starting November 1 until paid or until a court judgment is entered. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

***The Teeter Plan.*** At least 52 of the 58 counties in the State operate under provisions of California Revenue and Taxation Code Sections 4701-4716 (commonly referred to as the “Teeter Plan”) pursuant to which K-14 districts in such counties may receive their total secured tax levies irrespective of actual collections and delinquencies. Pursuant to said provisions, each county operating under the Teeter Plan establishes a delinquency reserve and assumes responsibility for all secured delinquencies assuming that certain conditions are met.

Because of this method of tax collection, the K-14 districts located in counties operating under the Teeter Plan and participating in the Teeter Plan are assured of 100% collection of their total secured tax levies assuming that the conditions established under the applicable county’s Teeter Plan are met. However, such districts are no longer entitled to share in any penalties due to delinquent payments. This method of tax collection and distribution is subject to future discontinuance by the applicable county or if demanded by the participating entities. Tax delinquencies in excess of a certain percentage could trigger a discontinuance by certain counties of their Teeter Plans.

***Projected Increases in Property Tax Delinquencies.*** Current economic conditions suggest that there may be an increased rate of delinquencies in the payment of *ad valorem* property taxes and special assessments throughout the State of California. Some factors in the projected increase in such delinquencies include fallout from the subprime home mortgage loan industry and general negative economic factors, such as increased unemployment rates. Any substantial increase in the number of loan foreclosures within the boundaries of a District may result in delays or suspensions of the corresponding payment of property taxes for a period of time for those Districts whose boundaries are within a county that does not operate under the Teeter Plan. Even for those Districts within counties operating under the Teeter Plan, a substantial amount of delinquencies in *ad valorem* tax payments could result in a discontinuance in the Teeter Plan with respect to such District, which may delay or suspend the corresponding payment of property taxes for a period of time. However, such taxes continue to be due and owing with respect to foreclosed-upon property by its legal owner and would be satisfied, if required, from the proceeds of a tax sale of such property, administered by the applicable County.

### **Constitutional and Statutory Provisions Affecting School District Revenues and Appropriations**

***Article XIII A of the California Constitution.*** California voters approved Proposition 13, a statewide initiative relating to the taxation of real property that added Article XIII A to the California Constitution, on June 6, 1978. Among other things, Proposition 13: (a) limits *ad valorem* property taxes on all real property to 1% of the full cash value of the property; (b) exempts from the 1% limitation any indebtedness approved by the voters prior to July 1, 1978, or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by those voting on the proposition; (c) defines “full cash value” as the county assessor’s appraised value of real property as of March 1, 1975, adjusted by changes in the Consumer Price Index--not to exceed 2% per year; (d) permits establishment of a new “full cash value” when there is new construction or a change in ownership (subject to certain exceptions); (e) permits the reassessment, up to the March 1, 1975 value, of property which was not current on the 1975-76 assessment roll; (f) requires counties to collect the 1% property tax and to “apportion according to law to the districts within the counties”; (g) prohibits new *ad valorem* taxes on real property, or sales or transaction taxes on the sale of real property; (h) permits the imposition of special taxes by local agencies, other than those prohibited, by a two-thirds vote of the “qualified electors” of such agencies; and (i) requires a two-thirds vote of all members of both houses of the Legislature for any changes in State taxes that would result in increased revenues. Additionally, Proposition 39, which was approved by the State’s voters on November 7, 2000, permits bonded indebtedness to be 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, if approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. See “—Proposition 39” herein.

Legislation enacted by the Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. Such legislation further provides that each county will levy the maximum tax permitted by Article XIII A, which is \$1.00 per \$100 of taxable value, which is distributed among taxing agencies by a formula based on each agency’s pre-1978 tax rate as a percentage of all taxes received in such county.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be reassessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate disabled persons and for seismic upgrades to property.

Both the California State Supreme Court and the United States Supreme Court have upheld the 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 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Since the 1981-1982 Fiscal Year, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property values included in this Official Statement are shown at 100% of market value (unless noted differently), and all tax rates reflect the \$1 per \$100 of taxable value.

***Article XIII B of the California Constitution.*** An initiative constitutional amendment entitled “Limitation of Government Appropriations” was approved by California voters on November 6, 1979. Under the amendment, which adds Article XIII B to the California Constitution, state and local government agencies are subject to an annual “appropriations limit,” and are prohibited from spending “appropriations subject to limitation” above that limit. Article XIII B was modified substantially by Propositions 98 and 111 in 1988 and 1990, respectively. “Appropriations subject to limitation,” for local government purposes, consist of “tax revenues,” state subventions and certain other funds (together herein referred to as “proceeds of taxes”). The amendment does not affect the appropriation of money excluded from the definition of “appropriations subject to limitation,” such as debt service on indebtedness existing or authorized by January 1, 1979, or subsequently authorized by the voters and appropriations mandated by the courts. The amendment also excludes from limitation the appropriation of proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds equal “the costs reasonably borne by such entity in providing the regulation, product or service.”

The appropriation limit for each agency in each year is based on the limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the option of each agency, either (a) the percentage change in State per capita personal income, or (b) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost-of-living index, which was used prior to the enactment of Proposition 111.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by an agency over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Section 4 of Article XIII B provides that the appropriations limit imposed on any entity of government may be changed by the electors of such entity, provided that the duration of any such change shall not exceed four years from the most recent vote of the electors.

As originally enacted in 1979, the appropriations limit for each agency was based on 1978-79 fiscal year authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting in the 1990-91 Fiscal Year, each agency’s appropriations limit was recalculated by taking the actual 1986-1987 limit, and applying the annual adjustments as if Proposition 111 had been in effect.

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 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 pursuant to Section 8.5 of Article XVI of the State Constitution. See “—Proposition 98” below.

***Article XIII C and Article XIII D of the California Constitution.*** On November 5, 1996, California voters approved Proposition 218—Voters Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose,

extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (a) the *ad valorem* property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (b) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (c) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 also adds voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

The Districts' largest revenue source is revenue limit income from the State in accordance with the revenue limit per unit of average daily attendance. In general, the Districts have not historically been funded through the imposition of special taxes or general taxes not already subject to a two-thirds voter approval. Proposition 218 could, however, restrict the Districts' ability to raise future revenues and could subject existing sources of revenue to reduction or repeal. The Districts are not able to predict at this time the effect Proposition 218 will have on the Districts' future revenues.

**Proposition 98.** On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). In addition to adding certain provisions to the California Education Code, Proposition 98 also amended Article XIII B and Section 8 of Article XVI of the State Constitution and added Section 8.5 of Article XVI to the State Constitution, establishing a minimum level of State funding for school districts, allocating to school districts, within limits, State revenues in excess of the State's appropriations limit and exempting such excess funds from school district appropriations limits.

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.

Article XIII B, as amended by both Proposition 98 and Proposition 111, is discussed above under "—Article XIII B of the California Constitution."

The provisions of Sections 8 and 8.5 of Article XVI, as added and/or amended by Propositions 98 and 111, may be summarized as follows:

- (a) *State Funding of Schools (Section 8).* Moneys to be applied by the State for the support of school districts must be at a level equal to the greater of the following "tests":

(i) The amount which, as a percentage of the State general fund (“General Fund”) revenues which may be appropriated pursuant to Article XIII B, equals the percentage of General Fund revenues appropriated for school districts in Fiscal Year 1986-1987;

(ii) The amount actually appropriated to school districts in the prior fiscal year from General Fund proceeds and from allocated local proceeds of taxes (excluding any excess State revenues allocated pursuant to Section 8.5), adjusted for changes in enrollment and for the change in the cost of living (operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus one-half of one percent); and

(iii) The amount actually appropriated to school districts in the prior fiscal year from General Fund proceeds and from allocated local proceeds of taxes (excluding any excess State revenues allocated pursuant to Section 8.5) adjusted for changes in enrollment and for the change in per capita General Fund revenues, and, in addition, an amount equal to one-half of one percent times the prior year appropriations (excluding any excess State revenues) adjusted for changes in enrollment (operative only in a fiscal year in which the percentage growth in California per capita personal income is greater than the percentage growth in per capita General Fund revenues plus one-half of one percent).

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 the General Fund revenue growth exceeds personal income growth. Legislation adopted prior to the end of the 1988-1989 Fiscal Year implementing Proposition 98 determined the K-14 schools’ funding guarantee under Test 1 to be 40.3% of the General Fund tax revenues, based on 1986-1987 appropriations. However, that percent has been adjusted to approximately 35% to account for a subsequent redirection of local property taxes since such redirection directly affects the share of State General Fund revenues to schools.

The Legislature by a two-thirds vote of both houses, with the Governor’s concurrence, may suspend for one year the minimum funding provisions for school districts as provided for in Section 8.

(b) *Allocations to the State School Fund (Section 8.5).* In addition to the amounts applied to school districts under the tests discussed above, the State Controller is directed to allocate available excess State revenues (pursuant to Article XIII B) to the State School Fund. However, no such allocation is required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditures per student of the 10 states with the highest annual expenditures per student and the average class size equals or is less than the average class size of the 10 states with the lowest class size.

Such allocations do not constitute appropriations subject to Article XIII B limitations and are to be made in an equal amount per enrollment.

**Proposition 39.** On November 7, 2000, California voters approved Proposition 39, called the “Smaller Classes, Safer Schools and Financial Accountability Act” (the “Smaller Classes Act”) which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section

47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55% of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (a) a restriction that the proceeds of the bonds may be used for “the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities,” (b) a list of projects to be funded and a certification that the school district board has evaluated “safety, class size reduction, and information technology needs in developing that list,” and (c) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bonds proceeds.

Section 1(b)(3) of Article XIII A has been added to except from the 1% *ad valorem* tax limitation under Section 1(a) of Article XIII A of the Constitution levies to pay bonds approved by 55% of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (a) for a school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (b) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (c) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. Finally, AB 1908 required that a citizens’ oversight committee must be appointed, and must review the use of the bond funds and inform the public about their proper usage.

**Proposition 1A.** On November 2, 2004, California voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State cannot (a) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (b) shift property taxes from local governments to schools or community colleges, (c) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature, or (d) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in 2008-2009, 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 the 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 amends 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.

**Application of Constitutional and Statutory Provisions.** The application of Proposition 98 and other statutory regulations has become increasingly difficult to accurately predict in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding, see “GENERAL DISTRICT FINANCIAL INFORMATION—State Funding of Education” herein.

**Possible Future Actions.** Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 98, 111, 39 and 1A were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting the Districts’ revenues or the Districts’ ability to expend revenues. There is no assurance that

the California electorate or Legislature will not at some future time approve additional limitations which could reduce property or other tax revenues or otherwise adversely affect the revenues of the Districts.

### **PARTICIPATING DISTRICTS**

There are three types of school districts within the State. As of July 1, 2009, there are 549 (such number may be reduced by up to three prior to July 1, based on pending action by the State Board of Education) elementary school districts providing educational services for children in kindergarten through eighth grade in the State, 83 secondary or high school districts providing educational services for children in ninth through twelfth grade in the State, and 334 unified school districts providing educational services for children in kindergarten through twelfth grade in the State. Notes are expected to be issued by 55 elementary school districts, 21 high school districts and 62 unified school districts. Each of the 58 counties in the State has established a board of education in such county. Notes are expected to be issued by 8 county boards of education. There are 72 community college districts in the State. Notes are expected to be issued by three community college districts.

Each month that a District is required to cause to be deposited to its Payment Account attributable to its Note amounts sufficient to pay specified percentages of principal of and interest due on such District’s Note as of its maturity date (taking into account anticipated investment earnings to be received by the maturity date of the Note (i.e., July 1, 2010) is referred to herein as a “Repayment Month.” See “SECURITY AND SOURCE OF PAYMENT—The Notes” herein. See also “INVESTMENT OF DISTRICT FUNDS” herein. The Repayment Months and the applicable percentages of principal of and interest on each District’s Note required to be on deposit in such District’s Payment Account and Proceeds Subaccount attributable to its Note (together with anticipated investment earnings thereon to be received by the maturity of such District’s Note) are as follows:

<b>Repayment Months</b>	<b>Applicable Percentage (of principal due with respect to the Note due on July 1, 2010)</b>
February 2010	40%
March 2010	50
April 2010	60
May 2010	100*

\*100% of the interest due with respect to the Note is required to be deposited by May 2010.

Certain information concerning the Districts is set forth below and in Appendix B hereto. Additional information obtained from financial statements and budgets of the Districts is available upon request during the initial offering period from Piper Jaffray & Co., 2321 Rosecrans Ave., Suite 3200, El Segundo, California 90245.

The following table lists the participating Districts, the counties in which such Districts are located, the principal amount of the Note being issued by each such District, the principal amount of the Note of each District as a percentage of the total principal amount of Bonds, the amount of the total budgeted revenues for each District for Fiscal Year 2008-2009, the amount of the total anticipated revenues for Fiscal Year 2009-2010, the principal amount of each District’s Note as a percentage of its total revenues for Fiscal Year 2008-2009, the projected general fund balance for each District as of June 30, 2010, and the projected available fund equity for each District as of June 30, 2010. For purposes of such table, payments being deferred by the State to each District into the next fiscal year are treated as being attributable to the fiscal year in which each District accounts for such funds. See “GENERAL DISTRICT FINANCIAL INFORMATION—State Funding of Education—Impact on Districts.”

County	District	Principal Amount of Notes	Notes as a Percent of Total Issuance	Total Budgeted Revenues for FY 2008/09 (1)	Total Anticipated Revenues for FY 2009/10 (2)	Notes as a Percent of Revenues for FY 2008/09	Projected General Fund Ending Balance FY 2009/10 (2)	Projected Available Fund Equity (3)
Alameda	(4)	Pleasanton Unified	1.7385%	143,119,392	144,299,171	6.4527%	7,367,841	12,928,853
Alameda		Sunol Glen Unified	0.0753%	1,555,032	2,212,546	25.7229%	56,543	133,943
Amador	(4)	Amador County Office of Education	0.0857%	7,947,615	8,742,815	5.7250%	1,153,778	2,323,348
Amador	(4)	Amador County Unified	0.5563%	29,898,479	27,839,214	9.8834%	2,413,337	4,611,955
Calaveras		Bret Harte Union High	0.3247%	11,131,026	11,121,564	15.4972%	1,269,494	10,717,795
Calaveras		Calaveras Unified	0.2984%	28,101,301	28,184,319	5.6403%	1,389,279	6,159,360
Calaveras		Vallecito Union Elementary	0.1732%	7,694,496	7,130,339	11.9566%	482,382	1,309,382
Contra Costa		Walnut Creek	0.0988%	23,839,463	24,972,688	2.2022%	6,299,930	9,524,930
Del Norte		Del Norte County Unified	0.2146%	34,882,868	37,711,132	3.2681%	3,379,815	3,306,308
El Dorado		Camino Union Elementary	0.0631%	3,553,931	3,368,097	9.4262%	465,409	465,409
Fresno		West Hills Community College	0.7332%	31,484,048	33,547,677	12.3713%	1,677,383	1,677,383
Fresno		Sanger Unified	0.9413%	75,910,892	82,226,007	6.5867%	10,052,146	14,052,146
Fresno		Central Unified	1.3874%	107,606,540	106,052,361	6.8490%	6,863,646	10,223,788
Fresno		Kerman Unified	0.2372%	33,689,489	32,414,785	3.7400%	5,746,106	8,447,470
Glenn	(4)	Willows Unified	0.1864%	13,798,321	12,885,612	7.1748%	411,165	1,682,839
Humboldt		Northern Humboldt Union High	0.1440%	14,885,747	16,090,814	5.1391%	958,533	2,504,441
Imperial		Brawley Union High	0.2090%	17,689,239	17,185,747	6.2750%	777,601	1,272,601
Imperial		Calipatria Unified	0.2570%	10,403,872	13,075,136	13.1201%	3,375,493	3,551,782
Imperial		Central Union High	0.6382%	34,719,161	27,476,952	9.7641%	3,273,823	3,711,990
Imperial		El Centro Elementary	0.9413%	47,867,892	46,161,490	10.4454%	4,786,757	11,404,611
Imperial		Holtville Unified	0.1581%	14,337,658	13,917,568	5.8587%	957,124	1,092,124
Imperial		San Pasqual Valley Unified	0.0744%	11,334,800	12,167,331	3.4848%	1,300,956	3,454,406
Inyo		Bishop Union Elementary	0.1271%	10,534,586	10,507,872	6.4075%	1,609,207	1,711,563
Kern		Delano Union Elementary	0.9413%	66,615,527	42,190,726	7.5058%	3,586,423	13,944,338
Kern		Lamont	0.2325%	25,499,296	27,215,430	4.8433%	3,646,310	5,113,229
Kern	(4)	Southern Kern Unified	0.6796%	27,296,773	26,083,229	13.2250%	2,260,514	4,957,196
Lake		Lakeport Unified	0.0668%	13,097,245	12,621,151	2.7105%	1,260,374	1,387,947
Lassen		Janesville Union Elementary	0.0160%	3,152,637	3,062,457	2.6962%	422,166	476,829
Los Angeles		Bellflower Unified	0.8217%	118,896,722	108,413,579	3.6713%	6,147,714	6,147,714
Los Angeles		Eastside Union	0.8518%	25,833,125	24,364,605	17.5163%	569,623	4,214,057
Los Angeles		Lancaster Elementary	0.9714%	118,663,543	114,113,320	4.3484%	6,284,882	20,084,882
Los Angeles	(4)	Las Virgenes Unified	0.7530%	95,976,587	94,698,357	4.1677%	3,641,970	4,941,970
Los Angeles		William S. Hart Union High	2.3927%	182,202,306	176,296,999	6.9758%	12,639,296	19,824,296
Los Angeles		Walnut Valley Unified	0.5328%	115,008,788	109,899,082	2.4607%	10,603,183	15,203,284
Madera		Madera County Board of Education	0.9413%	52,153,341	55,106,444	9.5871%	5,036,816	6,156,816
Madera		Bass Lake Joint Union	0.1224%	7,663,252	7,263,712	8.4820%	1,477,535	7,012,996
Madera		Golden Valley Unified	0.1901%	16,771,223	15,751,875	6.0222%	1,399,930	2,329,930
Madera		Yosemite Unified	0.5356%	20,574,742	19,350,000	13.8276%	1,190,364	2,075,364
Marin		Dixie Elementary	0.5450%	15,878,728	17,607,154	18.2319%	2,425,418	4,612,983
Marin		San Rafael City Elementary	0.7662%	32,317,339	33,763,200	12.5939%	4,526,293	5,126,293
Marin		San Rafael City High	1.0401%	25,070,824	25,928,640	22.0376%	5,915,123	6,415,123
Mariposa		Mariposa County Board of Education	0.0762%	2,681,987	2,845,945	15.1007%	517,809	517,809
Mariposa		Mariposa County Unified	0.1854%	20,615,365	19,900,176	4.7780%	1,950,056	2,315,806
Mendocino		Mendocino Unified	0.0734%	6,945,348	7,037,907	5.6153%	1,278,774	2,278,774
Mendocino		Arena Union Elementary-Point Arena Joint Union High	0.2297%	6,487,656	6,507,609	18.8049%	912,438	1,844,998
Merced		Ballico-Cressey Elementary	0.0254%	2,542,275	2,413,343	5.3102%	288,386	470,215
Merced		Hilmar Unified	0.2598%	17,396,707	17,075,001	7.9325%	460,372	872,524
Merced		McSwain Union Elementary	0.0819%	5,927,275	5,430,635	7.3390%	555,258	877,725

County	District	Principal Amount of Notes	Notes as a Percent of Total Issuance	Total Budgeted Revenues for FY 2008/09 (1)	Total Anticipated Revenues for FY 2009/10 (2)	Notes as a Percent of Revenues for FY 2008/09	Projected General Fund Ending Balance FY 2009/10 (2)	Projected Available Fund Equity (3)
Merced	Planada Elementary	135,000	0.0254%	7,652,325	6,509,888	1.7642%	772,690	1,330,721
Merced	Weaver Union Elementary	1,920,000	0.3614%	17,119,262	17,578,556	11.2154%	1,651,936	2,006,343
Mono	Mono County Board of Education	400,000	0.0753%	4,309,815	6,566,578	9.2811%	1,119,963	2,734,200
Mono	Eastern Sierra Unified	1,785,000	0.3360%	9,713,982	7,380,623	18.3756%	1,978,597	9,178,597
Monterey	Monterey County Board of Education	920,000	0.1732%	92,354,721	93,100,000	0.9962%	8,000,000	12,200,000
Monterey	Alisal Union Elementary	6,210,000	1.1690%	63,509,783	67,115,384	9.7780%	4,585,895	5,035,188
Monterey	(4) Monterey Peninsula Unified	2,570,000	0.4838%	98,055,693	96,307,856	2.6210%	77,210	9,377,816
Monterey	Pacific Grove Unified	5,000,000	0.9413%	22,307,788	22,833,217	22.4137%	853,217	1,723,639
Napa	Calistoga Joint Unified	730,000	0.1374%	10,888,008	10,746,987	6.7046%	2,732,632	4,337,713
Napa	St. Helena Unified	5,000,000	0.9413%	21,272,707	21,136,418	23.5043%	715,538	2,611,382
Orange	Huntington Beach City	2,390,000	0.4499%	47,897,329	45,884,835	4.9898%	845,682	2,290,682
Placer	Placer Union High	3,160,000	0.5949%	37,521,617	35,451,512	8.4218%	228,524	8,934,685
Riverside	Hemet Unified	14,775,000	2.7814%	188,765,788	187,897,902	7.8272%	20,813,430	29,843,109
Riverside	Jurupa Unified	7,970,000	1.5004%	170,624,037	161,356,928	4.6711%	19,207,036	27,328,661
Riverside	(4) Palo Verde Unified	155,000	0.0292%	30,713,306	29,391,238	0.5047%	1,012,901	1,170,901
Riverside	Perris Elementary	3,060,000	0.5760%	47,380,255	43,439,356	6.4584%	2,418,646	8,474,614
Riverside	Riverside Community College	10,725,000	2.0190%	184,696,301	176,158,000	5.8068%	17,891,021	33,845,405
Riverside	Lake Elsinore Unified	14,775,000	2.7814%	164,380,799	159,250,213	8.9883%	9,329,349	22,129,192
Riverside	Temecula Valley Unified	17,230,000	3.2436%	211,899,576	204,514,296	8.1312%	6,787,031	13,390,079
Riverside	Murrieta Valley Unified	15,035,000	2.8304%	152,768,950	150,000,000	9.8417%	6,500,000	15,716,805
Sacramento	Galt Joint Union Elementary	1,760,000	0.3313%	33,179,438	30,693,491	5.3045%	1,681,956	3,310,576
Sacramento	Galt Joint Union High	675,000	0.1271%	19,608,394	19,340,555	3.4424%	1,608,373	1,734,049
Sacramento	River Delta Unified	1,220,000	0.2297%	18,511,978	18,944,079	6.5903%	1,949,708	2,448,783
Sacramento	(4) Natomas Unified	11,895,000	2.2392%	77,689,094	77,352,516	15.3110%	2,701,691	22,826,329
San Benito	Hollister Elementary	1,535,000	0.2890%	44,962,987	43,255,635	3.4139%	3,873,649	13,681,413
San Benito	San Benito High	4,825,000	0.9083%	26,318,883	26,126,391	18.3328%	3,298,211	12,253,764
San Bernardino	Barstow Unified	1,675,000	0.3153%	54,557,884	53,380,054	3.0701%	4,005,140	4,973,601
San Bernardino	Redlands Unified	4,930,000	0.9281%	163,780,592	160,591,424	3.0101%	6,803,279	19,118,514
San Bernardino	Hesperia Unified	7,395,000	1.3921%	155,423,363	146,853,936	4.7580%	5,220,458	21,826,787
San Joaquin	Escalon Unified	1,485,000	0.2796%	23,299,553	21,836,101	6.3735%	1,131,788	3,364,655
San Joaquin	Linden Unified	1,125,000	0.2118%	19,688,753	19,392,176	5.7139%	2,603,783	6,383,088
San Joaquin	Lodi Unified	8,605,000	1.6199%	242,392,886	222,489,315	3.5500%	35,693,637	52,834,398
San Joaquin	Manteca Unified	9,380,000	1.7658%	169,465,476	153,644,603	5.5351%	11,748,357	15,190,357
San Joaquin	Ripon Unified	1,085,000	0.2043%	21,090,061	20,055,136	5.1446%	2,048,656	2,757,956
San Joaquin	Stockton Unified	19,690,000	3.7067%	322,528,576	325,673,537	6.1049%	23,428,352	42,796,926
San Mateo	Bayside	230,000	0.0433%	3,561,412	3,547,663	6.4581%	233,679	447,003
San Mateo	Belmont-Redwood Shores	3,070,000	0.5779%	25,604,000	28,114,258	11.9903%	1,512,978	4,263,088
San Mateo	Hillsborough City	2,710,000	0.5102%	19,896,079	20,308,422	13.6208%	1,608,575	4,951,319
San Mateo	Jefferson Union High	2,900,000	0.5459%	45,547,253	46,834,694	6.3670%	2,943,854	39,216,913
San Mateo	Pacifica	1,125,000	0.2118%	23,151,405	23,981,291	4.8593%	1,247,390	5,447,390
San Mateo	Millbrae Elementary	1,620,000	0.3050%	15,780,172	16,678,166	10.2660%	1,093,127	1,599,394
San Mateo	San Mateo County Community College	29,530,000	5.5591%	144,621,308	111,345,000	20.4188%	8,885,000	99,185,000
San Mateo	Woodside Elementary	1,315,000	0.2476%	7,283,998	7,180,000	18.0533%	1,020,477	1,020,477
Santa Barbara	Buellton Union Elementary	450,000	0.0847%	7,090,755	6,771,075	6.3463%	279,058	865,058
Santa Barbara	Carpinteria Unified	3,515,000	0.6617%	22,598,886	22,941,621	15.5539%	2,529,565	2,699,565
Santa Barbara	Cold Spring	400,000	0.0753%	3,005,525	3,091,967	13.3088%	168,634	699,901
Santa Barbara	Hope Elementary	935,000	0.1760%	9,059,182	9,066,010	10.3210%	1,029,139	1,029,139
Santa Barbara	Santa Ynez Valley Union High	1,265,000	0.2381%	11,905,582	10,747,604	10.6253%	167,090	2,182,163

County	District	Principal Amount of Notes	Notes as a Percent of Total Issuance	Total Budgeted Revenues for FY 2008/09 (1)	Total Anticipated Revenues for FY 2009/10 (2)	Notes as a Percent of Revenues for FY 2008/09	Projected General Fund Ending Balance FY 2009/10 (2)	Projected Available Fund Equity (3)
Santa Clara	Campbell Union High	12,805,000	2.4106%	68,799,504	69,265,516	18.6121%	9,131,506	28,606,753
Santa Clara	(4) Cupertino Union	9,855,000	1.8552%	154,081,006	127,381,400	6.3960%	745,141	8,050,948
Santa Clara	(4) Franklin-McKinley	5,000,000	0.9413%	79,111,015	80,056,424	6.3202%	3,770,658	4,268,949
Santa Clara	Gilroy Unified	9,855,000	1.8552%	85,685,251	90,033,606	11.5014%	4,683,327	9,683,327
Santa Clara	Lakeside Joint	125,000	0.0235%	1,166,046	1,206,235	10.7200%	161,059	450,729
Santa Clara	Loma Prieta Joint Union Elementary	855,000	0.1610%	4,358,686	4,400,000	19.6160%	432,951	582,951
Santa Clara	Los Gatos-Saratoga Joint Union High	5,000,000	0.9413%	35,115,079	36,685,080	14.2389%	1,435,681	6,126,681
Santa Clara	Morgan Hill Unified	7,365,000	1.3865%	69,755,101	68,914,139	10.5584%	2,361,714	7,123,794
Santa Clara	(4) Mount Pleasant Elementary	2,685,000	0.5055%	72,399,786	22,611,059	3.7086%	1,816,950	8,168,785
Santa Clara	Palo Alto Unified	5,000,000	0.9413%	144,977,006	154,589,127	3.4488%	17,520,920	30,097,998
Shasta	Shasta County Office of Education	1,420,000	0.2673%	43,036,523	45,223,090	3.2995%	3,457,822	5,058,712
Shasta	Anderson Union High	495,000	0.0932%	17,586,140	16,644,706	2.8147%	2,153,670	5,098,189
Shasta	Bella Vista Elementary	335,000	0.0631%	3,360,062	3,238,744	9.9701%	310,571	760,571
Shasta	(4) Cascade Union Elementary	565,000	0.1064%	12,732,604	12,517,755	4.4374%	1,939,001	2,326,077
Shasta	(4) Cottonwood Union Elementary	425,000	0.0800%	8,936,341	8,193,719	4.7559%	413,208	1,361,892
Shasta	(4) Grant Elementary	325,000	0.0612%	5,091,271	4,845,746	6.3835%	233,284	485,084
Shasta	(4) Pacheco Union Elementary	695,000	0.1308%	5,501,600	4,997,598	12.6327%	515,041	575,041
Sonoma	Santa Rosa Elementary School District - Santa Rosa High	5,000,000	0.9413%	133,937,419	131,142,353	3.7331%	13,227,938	21,897,341
Sonoma	(4) West Sonoma County Union High	1,050,000	0.1977%	21,448,389	22,044,358	4.8955%	2,709,208	4,304,208
Sonoma	Bennett Valley Union	605,000	0.1139%	7,151,768	7,012,006	8.4594%	682,516	1,614,546
Sonoma	Horicon	120,000	0.0226%	1,495,410	1,566,903	8.0246%	362,952	412,908
Sonoma	Rincon Valley Union	4,335,000	0.8161%	25,771,906	26,568,360	16.8206%	1,979,408	5,455,274
Sonoma	Sonoma Valley Unified	5,000,000	0.9413%	36,905,235	39,678,956	13.5482%	1,892,384	8,892,134
Sonoma	(4) Cotati-Rohnert Park Unified	5,000,000	0.9413%	51,854,795	47,495,018	9.6423%	2,110,659	4,601,659
Sonoma	Windsor Unified	4,500,000	0.8471%	42,409,785	39,741,548	10.6108%	3,100,489	4,755,489
Stanislaus	Stanislaus Union Elementary	2,130,000	0.4010%	25,974,937	24,863,648	8.2002%	1,032,556	1,680,814
Trinity	Trinity County Board of Education	155,000	0.0292%	5,661,463	6,424,000	2.7378%	704,173	1,600,572
Tulare	Exeter Union Elementary	680,000	0.1280%	110,020,423	14,678,904	0.6181%	2,669,527	2,669,527
Tulare	Exeter Union High	655,000	0.1233%	9,977,780	9,727,234	6.5646%	1,477,517	1,571,389
Tulare	Pixley Union Elementary	335,000	0.0631%	8,381,746	7,696,898	3.9968%	1,492,256	1,492,256
Tulare	Terra Bella Union Elementary	425,000	0.0800%	8,818,839	8,943,134	4.8192%	1,141,279	2,130,261
Tulare	Woodlake Union	1,305,000	0.2457%	14,985,664	15,391,258	8.7083%	1,263,853	2,763,853
Tulare	Porterville Unified	5,960,000	1.1220%	113,800,709	109,235,678	5.2372%	5,490,606	10,236,204
Tuolumne	(4) Curtis Creek Elementary	440,000	0.0828%	4,568,315	4,468,382	9.6316%	294,992	1,888,037
Tuolumne	Sonora	1,075,000	0.2024%	5,560,158	5,467,448	19.3340%	159,802	564,850
Tuolumne	Sonora Union High	1,540,000	0.2899%	13,159,149	12,599,776	11.7029%	241,042	4,146,921
Tuolumne	Big Oak Flat-Groveland Unified	585,000	0.1101%	5,318,790	5,342,573	10.9987%	454,923	654,923
Ventura	Fillmore Unified	3,670,000	0.6909%	30,624,972	29,893,129	11.9837%	1,548,406	2,637,305
Ventura	Hueneme Elementary	2,510,000	0.4725%	67,522,681	63,504,056	3.7173%	3,024,749	3,609,749
Ventura	(4) Ojai Unified	1,890,000	0.3558%	25,425,105	23,804,917	7.4336%	698,604	1,088,604
Ventura	Oxnard Union High	2,145,000	0.4038%	133,471,661	123,556,694	1.6071%	7,437,039	15,953,382
Ventura	Pleasant Valley	3,755,000	0.7069%	48,817,691	48,105,144	7.6919%	733,908	2,647,259
Ventura	Rio Elementary	3,120,000	0.5873%	32,945,662	38,494,546	9.4701%	2,780,796	8,822,851
Ventura	Santa Paula Elementary	2,370,000	0.4462%	32,666,803	31,086,157	7.2551%	490,997	3,790,997
Ventura	Simi Valley Unified	6,035,000	1.1361%	154,505,222	147,846,407	3.9060%	18,337,615	48,831,423
Ventura	Ventura Unified	9,855,000	1.8552%	135,029,329	136,618,700	7.2984%	9,883,200	38,283,200
Ventura	Conejo Valley Unified	19,690,000	3.7067%	166,326,257	153,506,087	11.8382%	9,348,039	13,198,969
Ventura	Oak Park Unified	1,615,000	0.3040%	28,935,330	28,960,652	5.5814%	647,558	2,613,994

County	District	Principal Amount of Notes	Notes as a Percent of Total Issuance	Total Budgeted Revenues for FY 2008/09 (1)	Total Anticipated Revenues for FY 2009/10 (2)	Notes as a Percent of Revenues for FY 2008/09	Projected General Fund Ending Balance FY 2009/10 (2)	Projected Available Fund Equity (3)
Ventura	Moorpark Unified	4,915,000	0.9253%	57,794,855	56,914,566	8.5042%	2,427,000	3,627,000
Yolo	Yolo County Board of Education	1,710,000	0.3219%	32,865,217	33,679,643	5.2031%	4,090,196	4,782,073
Yolo	Esparto Unified	575,000	0.1082%	8,907,026	8,863,501	6.4556%	919,895	982,467
Yolo	Winters Joint Unified	515,000	0.0969%	13,580,882	13,795,306	3.7921%	1,643,626	3,193,729
Yuba	Wheatland Union High	695,000	0.1308%	6,282,895	6,030,417	11.0618%	563,895	641,217
	Total: 149	531,205,000						

(1) Source: Adopted 2008-09 Budget.

(2) Source: The participating districts. Projected ending fund balance may not include unrestricted funds held as special reserve to the general fund.

(3) Source: The participating districts. Includes restricted and unrestricted general fund, special revenue, and capital project funds as of June 30, 2009.

(4) Qualified as of 2008-09 first interim or second interim report.

## **SUMMARY OF DISTRICT RESOLUTIONS**

The following is a summary of certain provisions of the form of the Resolution adopted by each District not heretofore summarized under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" contained herein. Reference is made to each Resolution in its entirety for a full recital of the provisions thereof.

### **Disposition of Proceeds of Note**

The moneys received from the sale of the Note allocable to such District's share of the Costs of Issuance shall be deposited in the Costs of Issuance Fund held and invested by the Trustee under the Indenture and shall be expended as directed by the Underwriter on the Costs of Issuance as provided in the Indenture. The moneys received from the sale of the Note designated the "Deposit to Proceeds Subaccount" shall be deposited in such District's Proceeds Subaccount attributable to its Note created pursuant to, and held and invested by the Trustee under, the Indenture for such District and may be used and expended by such District for any purpose for which it is authorized to use and expend funds, upon requisition from such Proceeds Subaccount as specified in the Indenture. Subject to the provisions in each Resolution summarized under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," each District covenants and agrees to replenish amounts on deposit in its Proceeds Subaccount attributable to its Note to the extent practicable from any source of available funds up to an amount equal to the unreplenished withdrawals from such Proceeds Subaccount attributable to such Note. The Trustee shall transfer to the Payment Account of such District attributable to its Note from amounts on deposit in the Proceeds Subaccount attributable to such Note on the first day of each Repayment Month amounts which, taking into consideration anticipated earnings thereon to be received by the maturity date of its Note, are equal to the percentages of the principal and interest due on its Note at maturity required to be on deposit therein in each such Repayment Month applicable to the District as described under the caption "PARTICIPATING DISTRICTS"; provided, however, that on the twentieth day of the next to last Repayment Month for such District, the Trustee shall transfer all remaining amounts in such District's Proceeds Subaccount attributable to its Note to its Payment Account attributable to its Note; provided further, however, that if the amount on deposit in such Proceeds Subaccount attributable to its Note is less than the amount required to be on deposit therein for such Repayment Month, the Trustee shall transfer to the Payment Account attributable to the Note of such District all amounts on deposit in such Proceeds Subaccount attributable to its Note on the twentieth day of such Repayment Month.

### **Additional Payments**

Each District agrees to pay, or cause to be paid, in addition to the amounts payable under its Note, any fees or expenses of the Trustee and, to the extent permitted by law, any Predefault Obligations and Reimbursement Obligations (to the extent not payable under its Note), (i) arising out of an "Event of Default" under its Resolution or (ii) arising out of any other event (other than an event arising solely as a result of or otherwise attributable to a default by any other District). In the case described in (ii) above with respect to Predefault Obligations, each District shall owe only the percentage of such fees, expenses and Predefault Obligations equal to the ratio of the Principal Amount of its Note over the aggregate Principal Amounts of all Notes, including the Notes assigned to the Bonds issued in connection with the Note, at the time of original issuance of such Bonds. Such additional amounts will be paid by each District within 25 days of receipt by such District of a bill therefor from the Trustee.

### **No Joint Obligation; Bond Owners' Rights**

The Note of each District will be issued in conjunction with the Notes of other Districts and will be assigned to a pool of the Notes to secure the Bonds. The obligation of each District to make payment

on its Notes is a several and not a joint obligation and is strictly limited to such District's repayment obligation under its Resolution and its Note.

## **Defaults and Remedies**

**Defaults.** If any of the following events occurs under a Resolution, it is an "Event of Default" under such Resolution:

(a) failure by the District to make, or cause to be made, the deposits to its Payment Account related to its Note or any other Payment Account related to its Additional Notes required to be made under its Resolution on or before the fifteenth day after the date on which such deposit is due and payable, or failure by the District to make or cause to be made any other payment required to be paid under its Resolution on or before the date on which such payment is due and payable;

(b) failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed under its Resolution, for a period of 15 days after written notice, specifying such failure and requesting that it be remedied, is given to such District by the Trustee or the Bank (or, if applicable, any other credit provider with respect to Additional Notes of such District), unless the Trustee and the Bank (or, if applicable, any other credit provider with respect to Additional Notes of such District) shall agree in writing to an extension of such time prior to its expiration;

(c) any warranty, representation or other statement by or on behalf of the District contained in its Resolution, its Purchase Agreement, the Credit Agreement (or, if applicable, any credit agreement with respect to Additional Notes of such District) or in any requisition or financial report or deficiency report delivered by such District or in any instrument furnished in compliance with or in reference to its Resolution, its Purchase Agreement, the Credit Agreement (or, if applicable, any credit agreement with respect to Additional Notes of such District) or in connection with its Note or any Additional Notes, is false or misleading in any material respect;

(d) any event of default constituting a payment default occurs in connection with any other bonds, notes or other outstanding debt of the District;

(e) A petition is filed against the District under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 30 days after such filing, but the Trustee shall have the right to intervene in the proceedings prior to the expiration of such 30 days to protect its and the Bond owners' (or Noteholders') interests;

(f) The District files a petition in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The District admits insolvency or bankruptcy or is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a custodian (including without limitation a receiver, liquidator or trustee) of the District or any of its property is appointed by court order or appointed by the State Superintendent of Public Instruction or takes possession thereof and such order remains in effect or such possession continues for more than 30 days, but the Trustee shall have the right to

intervene in the proceedings prior to the expiration of such 30 days to protect its and the Bond owners' or Noteholders' interests; and

(h) an "Event of Default" by the County under the terms of the resolution, if any, of the County providing for the issuance of the District's Note or Additional Notes, if any.

**Remedies.** Whenever any Event of Default shall have happened and be continuing under a Resolution, the Trustee shall, in addition to any other remedies provided in the Resolution or by law or under the Indenture, have the right, at its option without any further demand or notice, to take one or any combination of the following remedial steps:

(a) without declaring the Note or any Additional Notes of the defaulting District to be immediately due and payable, require such District to pay to the Trustee, for deposit into the Payment Account of such District attributable to its Note in the Bond Payment Fund under the Indenture (or any Payment Account applicable to Additional Notes of such District), an amount equal to all of the principal of its Note and Additional Notes, if any, and interest thereon to maturity, plus all other amounts due under its Resolution, and upon notice to such District, the same shall become immediately due and payable by such District without further notice or demand; and

(b) take whatever other action at law or in equity (except for acceleration of payment on the Note and Additional Notes, if any, of such District) which may appear necessary or desirable to collect the amounts then due and thereafter to become due under the Resolution or to enforce any other of its rights thereunder.

Notwithstanding the foregoing, and subject to the terms of the Resolution and the Indenture concerning exercise of remedies which shall control if inconsistent with the following, as long as the Bank has not failed to comply with its payment obligations under the Letter of Credit, the Bank shall have the right to direct the remedies upon any Event of Default under any Resolution, and the Bank's prior consent shall be required to any remedial action proposed to be taken by the Trustee thereunder.

If the Bank is not reimbursed on the maturity date of the Notes, for a drawing used to pay principal of and/or interest on any Note due to a default in payment on such Note, or if any of the principal of and/or interest on a District's Note remains unpaid after the maturity date of the Note, such Note shall become a Defaulted Note, and the unpaid portion (including the interest component, if applicable) thereof or the portion (including the interest component, if applicable) to which the Letter of Credit applies for which reimbursement has not been made shall be deemed outstanding and shall bear interest at the Default Rate until the District's obligation on the Defaulted Note is paid in full or payment is duly provided for, all subject to such District's Resolution.

### **Certain Representations and Covenants of the School Districts**

Each District has represented or covenanted under its Resolution, among other things, that:

(a) such District has (or will have prior to the issuance of its Note) duly, regularly and properly adopted a budget for Fiscal Year 2009-2010 setting forth expected revenues and expenditures and has (or will have prior to the issuance of its Note) complied with all statutory and regulatory requirements with respect to the adoption of such budget, and the District covenants that it will (i) duly, regularly and properly prepare and adopt its revised or final budget for Fiscal Year 2009-2010; (ii) provide to the Trustee, the Bank and the Underwriter, promptly upon adoption, copies of such revised or final budget and of any subsequent revisions,

modifications or amendments thereto; and (iii) comply with all applicable law pertaining to its budget;

(b) the principal amount of such District's Note (or, if Additional Notes are issued, the sum of the principal amount of such District's Note and Additional Notes) plus the interest payable thereon, on the date of issuance of such District's Note (or, if Additional Notes are issued, on the date of issuance of the final series of Additional Notes), will not exceed 50% of the estimated amount of such District's uncollected taxes, income, revenue (including, but not limited to, revenue from the State and federal governments), cash receipts, and other moneys to be received for the general fund of such District attributable to Fiscal Year 2009-2010, all of which will be legally available to pay principal of and interest on its Note and, if applicable, Additional Notes;

(c) the county in which such District is located has experienced an *ad valorem* property tax collection rate of not less than 85% of the average aggregate amount of *ad valorem* property taxes levied within such District in each of the five fiscal years, from Fiscal Year 2003-2004 through Fiscal Year 2007-2008, and such District, as of the date of adoption of its Resolution and on the date of issuance of its Note and, if applicable, Additional Notes, reasonably expects such county to have collected and to collect at least 85% of such amount for Fiscal Years 2008-2009 and 2009-2010, respectively;

(d) such District (i) has not defaulted within the past 20 years, and is not currently in default, on any debt obligation; (ii) to the best of its knowledge, has never defaulted on any debt obligation; and (iii) has never filed a petition in bankruptcy;

(e) such District's most recent audited financial statements present fairly the financial condition of such District as of the date thereof and the results of operation for the period covered thereby, and except as has been disclosed to the Underwriter and the Bank, there has been no change in the financial condition of such District since the date of such audited financial statements that will, in the reasonable opinion of such District, materially impair its ability to perform its obligations under its Resolution and its Note;

(f) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, arbitrator, governmental or other board, body or official, pending or, to the best knowledge of such District, threatened against or affecting such District questioning the validity of any proceeding taken or to be taken by such District in connection with its Note, its Purchase Agreement, the Indenture, the Credit Agreement or its Resolution, or seeking to prohibit, restrain or enjoin the execution, delivery or performance by such District of any of the foregoing, or wherein an unfavorable decision, ruling or finding would have a materially adverse effect on such District's financial condition or results of operations or on the ability of such District to conduct its activities as presently conducted or as proposed or contemplated to be conducted or would materially adversely affect the validity or enforceability of, or the authority or ability of such District to perform its obligations under, its Note, its Purchase Agreement, the Indenture, Credit Agreement or its Resolution;

(g) such District will not directly or indirectly amend, supplement, repeal or waive any portion of its Resolution (i) without the consent of the Bank or (ii) in any way that would materially adversely affect the interests of the Noteholders or the Bond Owners; provided, however, that such District may adopt one or more Supplemental Resolutions without any such consents in order to increase the maximum amount of Additional Notes it may issue thereunder in connection with the issuance of Additional Notes;

(h) such District will not incur any indebtedness that is not issued in connection with the Program under its Resolution and that is secured by a pledge of its unrestricted revenues unless such pledge is subordinate in all respects to the pledge of unrestricted revenues under its Resolution;

(i) so long as any Bonds are Outstanding, such District will not create or suffer to be created any pledge of or lien on its Note other than the pledge and lien of the Indenture;

(j) as of the date of adoption of its Resolution, based on the most recent report prepared by the Superintendent of Public Instruction of the State, such District did not have a negative certification (or except as disclosed in writing to the Bank, a qualified certification) applicable to the Fiscal Year 2008-2009 within the meaning of Section 42133 of the California Education Code. Each District has covenanted that it will immediately deliver a written notice to the Authority, the Underwriter, the Bank and Special Counsel if it (or, in the case of a County Board of Education, the County Superintendent of Schools) files with the County Superintendent of Schools, the County Board of Education or the State Superintendent of Public Instruction, or receives from the County Superintendent of Schools or the State Superintendent of Public Instruction, a qualified or negative certification applicable to Fiscal Year 2008-2009 or Fiscal Year 2009-2010 prior to the maturity of its Note;

(k) except as otherwise approved by the Bank, to the extent required by law and the State Superintendent of Public Instruction, such District fully funded its Reserve for Economic Uncertainties for Fiscal Year 2008-2009 and will fully fund its Reserve for Economic Uncertainties for Fiscal Year 2009-2010;

(l) the District will maintain a positive general fund balance in Fiscal Year 2009-2010; and

(m) the District will maintain an investment policy consistent with the policy set forth in its Resolution.

Each District also covenants under its Resolution that it will not take any action or fail to take any action if such action or failure to take such action would adversely affect the exclusion from gross income of the interest payable on the Bonds under Section 103 of the Code. Without limiting the generality of the foregoing, each District will not make any use of the proceeds of its Note or any other of its funds which would cause the Bonds to be an “arbitrage bond” within the meaning of Section 148 of the Code, a “private activity bond” within the meaning of Section 141(a) of the Code, or an obligation the interest on which is subject to federal income taxation because it is “federally guaranteed” as provided in Section 149(b) of the Code. Each District, with respect to the proceeds of its Note, will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued or applicable thereunder to the extent that such requirements are, at the time, applicable and in effect.

## **SUMMARY OF INDENTURE**

The following is a summary of certain provisions of the Indenture not heretofore summarized under the captions “DESCRIPTION OF THE BONDS” and “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS” contained herein. Reference is made to the Indenture in its entirety for a full recital of the provisions thereof. All capitalized words in the “SUMMARY OF INDENTURE,” unless otherwise defined herein, shall have the meanings set forth in the Indenture.

## **Funds and Accounts**

Under the Indenture, the Trustee agrees to establish and maintain, in trust, the Costs of Issuance Fund and therein the Series A Costs of Issuance Account, the Proceeds Fund and therein the Proceeds Subaccount attributable to each Note of each District, the Bond Payment Fund and therein the Payment Account attributable to each Note of each District, the Pool Interest Fund and therein the Series A Senior Interest Account and the Series A Subordinate Interest Account, the Pool Principal Fund and therein the Series A Senior Principal Account and the Series A Subordinate Principal Account, and the Credit Fund and therein the Series A Subordinate Credit Account. If Additional Bonds are issued by the Authority, the Trustee will establish accounts in such funds applicable to each series of Additional Bonds.

### **Costs of Issuance Fund**

The moneys in the Series A Costs of Issuance Account shall be used and withdrawn by the Trustee to pay the Costs of Issuance of the Bonds upon receipt of (i) a Request of the Authority, which shall be sequentially numbered, stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said account; and (ii) an original invoice or invoices submitted by the Underwriter or evidence of the Underwriter's payment of an invoice when such payment is in reimbursement thereof. On the earliest of December 1, 2009, the Business Day prior to the date of issuance of a series of Additional Bonds or on such earlier date upon Request of the Authority, amounts, if any, remaining in the Series A Costs of Issuance Account (and not required to pay identified Costs of Issuance, including any additional fees or expenses of the Bank or the Trustee, or any identified Predefault Obligations and Reimbursement Obligations) shall be transferred to the Bond Payment Fund and credited to the Payment Accounts therein attributable to the Notes in proportion to the amounts initially deposited in the Series A Costs of Issuance Account attributable to each District.

### **Proceeds Fund and Proceeds Subaccounts**

All money in the Proceeds Fund shall be held by the Trustee in trust. Net proceeds of the Bonds deposited in the Proceeds Fund shall be credited to the Proceeds Subaccounts, one of which shall be established for each Note of each of the Districts, initially in amounts set forth in the schedule attached to the Indenture. Moneys in the Proceeds Subaccount related to the Note or each series of Additional Notes of each District shall be disbursed to that District from time to time to but excluding the twentieth day of (i) the next-to-last Repayment Month applicable to such Note or Additional Note (as set forth on the face of such Note or Additional Note), or (ii) if only one Repayment Month is applicable to such Note or Additional Note, the month preceding such Repayment Month for such Note or Additional Note, as soon as practical, pursuant to a Requisition of the District submitted in advance of the requested disbursement date, as required to comply with the disbursement provisions, if any, of Permitted Investments in which such District has invested, as applicable, for any purpose for which the District is authorized to expend moneys; provided, however, that the Trustee shall not disburse any moneys from a Proceeds Subaccount if the Trustee has received written notice or actual knowledge that an Event of Default has occurred and is continuing as defined in the Resolution of such District, or if the Trustee has received written notification from the Underwriter that such District's financial certification under the California Education Code has been downgraded from the financial certification held by the District on the date the Bonds or Additional Bonds, as applicable, were issued, except that, with the consent of the Bank and all other credit enhancers for the Additional Bonds, if any, moneys may be disbursed if the downgrade is to a qualified certification.

Payments made by each District with respect to the Note and Additional Notes, if any, of that District prior to the first day of the first Repayment Month for such District's Note or Additional Note, as applicable, shall be credited to that District's Proceeds Subaccount applicable to the Note or Additional

Note, as applicable, and, except as otherwise specifically provided in the Indenture, shall be available for further disbursement to that District from time to time; provided, however, with respect to a District that has issued Additional Notes, that payments made with respect to the Note or any Additional Notes prior to the first day of the first Repayment Month of such Note or Additional Notes, shall, to the extent of any deficiency with respect to payments due on its Note or any Additional Notes of such District in any Repayment Month applicable to its Note or such Additional Notes, be applied to such deficiency and deposited in the deficient Payment Account in accordance with the priority provisions set forth in such District's Resolution, and such amount shall not be available for further disbursement to such District. A District shall not be allowed to deposit in its Proceeds Subaccount applicable to its Note or Additional Notes, if any, an amount that exceeds the amount, if any, of its then unreplenished withdrawals from such Proceeds Subaccount.

There shall be transferred to each District's Payment Account applicable to its Note in the Bond Payment Fund from the Proceeds Subaccount of each such District applicable to its Note (taking into consideration anticipated investment earnings thereon) (a) on the first day of each such District's Repayment Months designated for such Note (up to, but not including the next-to-last Repayment Month for such District) amounts which, are equal to the percentages of the principal and interest due on such District's Note at maturity for the corresponding Repayment Month as described under the caption "PARTICIPATING DISTRICTS"; and (b) on the twentieth day of such District's next-to-last Repayment Month designated for such Note an amount equal to the lesser of (i) the principal of and interest on that District's Note less that District's portion of amounts transferred to its Payment Account from excess amounts in the Series A Costs of Issuance Account and less (without duplication) any amounts then on deposit in such District's Payment Account for payment of its Note; and (ii) the total amount, if any, remaining in such District's Proceeds Subaccount applicable to its Note. If on the first day of such District's first Repayment Month designated for such Note the amount in such District's Proceeds Subaccount applicable to the Note is less than the amount required to be transferred to the Payment Account applicable to the Note of such District on such day, the Trustee shall transfer the entire amount in such District's Proceeds Subaccount applicable to its Note to the corresponding Payment Account in the Bond Payment Fund on such day. Any amounts remaining in a Proceeds Subaccount applicable to its Note after the amounts required to be transferred under the Indenture to the Bond Payment Fund have been transferred, less the amount of all outstanding Predefault Obligations and Reimbursement Obligations of or allocable to such District related to its Note, shall be returned to the District after the last day of the last Repayment Month applicable to its Note. Amounts on deposit in the District's Proceeds Subaccount applicable to its Note may be applied to the payment of Predefault Obligations of or allocable to such District.

### **Bond Payment Fund and Payment Accounts**

All principal and interest payments on the Notes and Additional Notes, if any, shall be paid directly by the Districts to the Trustee. All principal and interest payments on the Notes and Additional Notes, if any, received by the Trustee shall be held in trust by the Trustee under the terms of the Indenture and shall be deposited by it, as and when received, in the applicable Payment Account attributed to the corresponding Notes or Additional Notes, if any, within the Bond Payment Fund (except as otherwise provided in the Indenture to the extent a District has issued Additional Notes that are Senior Notes and there is a deficiency in one or more of the Payment Accounts attributable to one or more series of Senior Notes), which fund the Trustee has agreed to maintain so long as any Bonds or Additional Bonds are Outstanding, and all money in such fund shall be held in trust by the Trustee for the benefit and security of, with respect to the Payment Accounts applicable to the Notes, the Owners and the Bank, and, with respect to the Payment Accounts applicable to the Additional Notes, the registered owners of the corresponding Additional Bonds and any credit enhancer related to such Additional Bonds, to the extent set forth in the Indenture.

Pursuant to each District's Resolution, each District is required to deposit amounts with the Trustee in the months identified as such District's Repayment Months (as defined in such District's Resolution and indicated on the face of such District's Note and each series of Additional Notes, if any) until the amount on deposit in such District's Payment Account attributed to its Note and each corresponding series of Additional Note, if any, taking into consideration anticipated investment earnings thereon to be received by the maturity date for such Note or corresponding Additional Note, is equal to the percentages of the principal and interest due on such District's Note or Additional Note, as applicable, required in such Repayment Month as indicated on the face of such District's Note or each series of Additional Notes, if any. See "PARTICIPATING DISTRICTS" herein. If any District fails to make the required deposits, the Trustee shall as soon as practical (but in any event within three Business Days) notify such District, the Bank and each credit enhancer related to the Additional Bonds of such failure. If the amount on deposit in a District's Payment Account attributable to its Note is in excess of the amounts required to pay the principal of and interest due on such District's Note on the maturity date for such Note, such excess amounts shall remain in such Payment Account and shall be transferred to such District following (1) payment of the Bonds, (2) reimbursement of the Bank for drawings under or payments pursuant to the Letter of Credit and payment to the Bank of any Reimbursement Obligations and Predefault Obligations applicable to such District and (3) to the extent such excess amounts do not constitute proceeds of such Note, payment of any Additional Notes of such District in accordance with the priority provisions set forth in such District's Resolution.

Notwithstanding any other provision of the Indenture, with regard to a District that has issued Additional Notes, to the extent, on any interest payment date or principal payment date applicable thereto, there is a deficiency with respect to its Note or any Additional Note of such District and to the extent any payment on its Note or any Additional Notes is being made from moneys other than proceeds of such Note or Additional Notes, the Trustee shall apportion all such payments received from such District relating to its Note and all of its Additional Notes in accordance with the priority provisions set forth in such District's Resolution.

### **Pool Interest Fund and Pool Principal Fund**

The Trustee shall, after making any apportionments required by the Indenture among Payment Accounts of a District applicable to its Note and Additional Notes, transfer the money contained in the applicable Payment Accounts in the Bond Payment Fund attributable to the Notes at the following respective times to the following respective funds and accounts in the manner described below, each of which funds and accounts the Trustee has agreed to maintain for so long as any Bonds are Outstanding, and the money in each of such funds and accounts shall be disbursed only for the purposes and uses authorized (subject to the provisions in the Indenture pertaining to a payment under the Letter of Credit. See "—Credit Fund" herein).

(a) *Series A Senior Interest Account in the Pool Interest Fund.* The Trustee, on each Interest Payment Date, shall deposit in the Series A Senior Interest Account in the Pool Interest Fund that amount of money representing the interest becoming due and payable on the Senior Bonds on the such Interest Payment Date. All moneys in the Series A Senior Interest Account in the Pool Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds on the applicable Interest Payment Date.

(b) *Series A Senior Principal Account in the Pool Principal Fund.* The Trustee, at maturity, shall, after having made any transfers required to be made pursuant to (a) above, deposit in the Series A Senior Principal Account in the Pool Principal Fund that amount of money representing the principal becoming due and payable on the Senior Bonds at maturity. All moneys in the Series A Senior Principal Account in the Pool Principal Fund shall be used and

withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds at maturity.

(c) *Series A Subordinate Interest Account in the Pool Interest Fund.* The Trustee, on each Interest Payment Date, shall, after having made any transfers required to be made pursuant to (a) and (b) above, deposit in the Series A Subordinate Interest Account in the Pool Interest Fund that amount of money representing the interest becoming due and payable on the Subordinate Bonds on the such Interest Payment Date. All moneys in the Series A Subordinate Interest Account in the Pool Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinate Bonds on the applicable Interest Payment Date.

(d) *Series A Subordinate Principal Account in the Pool Principal Fund.* The Trustee, at maturity, shall, after having made any transfers required to be made pursuant to (a), (b) and (c) above, deposit in the Series A Subordinate Principal Account in the Pool Principal Fund that amount of money representing the principal becoming due and payable on the Subordinate Bonds at maturity. All moneys in the Series A Subordinate Principal Account in the Pool Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinate Bonds at maturity.

### **Credit Fund**

The Trustee shall draw upon the Letter of Credit in accordance with the terms thereof at such time and in sufficient amounts to make timely payment of the interest on and principal of the Subordinate Bonds. The Trustee shall request payment under the Letter of Credit on each Subordinate Bond Interest Payment Date and the Principal Payment Date. Moneys drawn under or paid pursuant to the Letter of Credit shall be deposited in the Series A Subordinate Credit Account of the Credit Fund.

In the event of default by any District in the payment of any of the principal of and/or interest on its Note on any Interest Payment Date or the Maturity Date, upon payment by the Bank under the Letter of Credit, with respect to the payment of the principal and/or interest, the Bank will succeed and be subrogated to the rights of the Owners of the Subordinate Bonds paid with proceeds of such drawing under the Letter of Credit. Any Note described in the preceding sentence shall on such date be a Defaulted Note and the unpaid portion thereof shall be deemed outstanding and shall not be deemed paid until the conditions for cancellation of such Note as set forth in the Indenture are satisfied.

### **Defaults and Remedies**

**Action on Default.** If any default in the payment of principal of or interest on a Note or Additional Note, or any other “Event of Default” defined in a Resolution shall occur and be continuing, then such default shall constitute an “Event of Default” under the Indenture, and in each and every such case during the continuance of such Event of Default the Trustee or, subject to the provisions under “— Bank’s or Other Credit Provider’s Control of Remedies” below, the Owners and registered owners of not less than a majority in aggregate principal amount of the corresponding Bonds and series of Additional Bonds, as applicable, at the time Outstanding shall be entitled, upon notice in writing to such District, to exercise the remedies provided to the owner of the Note or Additional Note, as applicable, then in default or under the Resolution pursuant to which it was issued.

***Other Remedies of the Trustee.*** The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against any District or any trustee, member, officer or employee thereof, and to compel such District or any such trustee, member, officer or employee thereof to observe or perform its or his duties under applicable law and the agreements, conditions, covenants and terms contained in the Indenture, or in the applicable Note or Additional Note, if any, and Resolution, required to be observed or performed by it or him;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee, the Owners, the registered owners of Additional Bonds, if any, the Bank, or each credit enhancer with respect to any Additional Bonds; or

(c) by suit in equity upon the happening of any default under the Indenture to require any District and any trustee, member, officer and employee thereof to account as the trustee of any express trust.

***Nonwaiver.*** A waiver by the Trustee of any default under the Indenture or breach of any obligation under the Indenture shall not affect any subsequent default under the Indenture or any subsequent breach of an obligation under the Indenture or impair any rights or remedies on any such subsequent default thereunder or on any such subsequent breach of an obligation thereunder. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default under the Indenture shall impair any such right or remedy or shall be construed to be a waiver of any such default thereunder or an acquiescence therein, and every right or remedy conferred upon the Trustee by applicable law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee, the Bank, any credit enhancer for any series of Additional Bonds, the Authority or the Districts, then such parties shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Notwithstanding anything to the contrary, no waiver by the Trustee of any default under the Indenture or breach of any obligation thereunder with respect to any District shall be effective without the prior written consent of the Bank and, if applicable, each credit enhancer with respect to each series of Additional Bonds, if any.

***Application of Funds.*** All moneys received by the Trustee pursuant to any right given or action taken under the provisions set forth under the caption “SUMMARY OF INDENTURE—Defaults and Remedies” shall be apportioned by the Trustee, after payment of the Trustee’s compensation and other fees of the Trustee, in accordance with the priority provisions set forth in the applicable District’s Resolution. Each such apportioned payment shall be deposited into the segregated Payment Accounts attributable to the corresponding series of Notes and Additional Notes, as applicable, of the defaulting District in the Bond Payment Fund and shall be applied by the Trustee in the following order upon presentation of the several affected series of Senior Bonds and/or Subordinate Bonds, as applicable, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

FIRST, to the payment of the costs and expenses of the Trustee and of the Owners and registered owners of Additional Bonds, if any, in declaring such Event of Default, including reasonable compensation to its or their agents, attorneys and counsel;

SECOND, to the payment to the persons entitled thereto of all payments of interest on the applicable series of Bonds or Additional Bonds then due in the order of the due date of such payments and, if the amount available shall not be sufficient to pay in full any payment or payments coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

THIRD, to the payment to the persons entitled thereto of the unpaid principal of the applicable series of Bonds or Additional Bonds which shall have become due, in the order of their due dates, with interest on the overdue principal and interest on the applicable series of Bonds or Additional Bonds at a rate equal to the applicable Default Rate and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the applicable series of Bonds or Additional Bonds on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

FOURTH, to the payment of all Predefault Obligations and Reimbursement Obligations applicable to such District,

provided, however, that (i) all principal of and interest on the related series of Senior Bonds shall be paid prior to any payments due with respect to a corresponding series of Subordinate Bonds (including any payment to the corresponding credit enhancer), and (ii) all amounts in the Senior Credit Account of the Credit Fund attributable to each such series shall be applied solely to payment of the principal of and interest on the corresponding series of Senior Bonds and all amounts in the Subordinate Credit Account of the Credit Fund attributable to each such series shall be applied solely to payment of the principal of and interest on the corresponding series of Subordinate Bonds; and provided, further, that the Trustee shall follow the instructions contained in an Opinion of Counsel provided by the Authority and rebate or set aside for rebate from the specified funds held hereunder any amount pursuant to such instructions required to be paid to the United States of America under the Code.

***Remedies Not Exclusive.*** No remedy conferred in the Indenture upon or reserved therein to the Trustee is intended to be exclusive, and all remedies shall be cumulative and each remedy shall be in addition to every other remedy given thereunder or now or hereafter existing under applicable law or equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other applicable law.

***Bank's or other Credit Enhancer's Control of Remedies.*** Notwithstanding anything to the contrary in the Indenture, the Bank, so long as it has not failed to comply with its payment obligations under the Letter of Credit, and each credit enhancer with respect to Additional Bonds, if any, so long as it has not failed to comply with its payment obligations under its credit enhancement for the applicable Additional Bonds, shall have the right to direct the remedies upon any Event of Default under the Indenture but only so long as such action will not materially adversely affect the rights of any Bond Owner or registered owner of Additional Bonds, and the Bank's and each such other credit enhancer's prior consent shall be required to any remedial action proposed to be taken by the Trustee thereunder.

### **Exercise of Remedies**

Upon the exercise by the requisite number of Owners and registered owners of Additional Bonds, the Trustee, the Bank or any credit enhancer for Additional Bonds of its right of action to institute suit directly against a District to enforce payment of a Note or Additional Note, if any, any moneys recovered

by such action shall be deposited with the Trustee and applied as provided above under “—Application of Funds.”

### **Limited Liability of the Authority**

Except as expressly provided in the Indenture, the Authority shall not have any obligation or liability to the Trustee, the Owners or the Bank with respect to the payment when due of the Notes by the Districts, or with respect to the observance or performance by the Districts of the other agreements, conditions, covenants and terms contained in the Notes and the Resolutions, or with respect to the performance by the Trustee of any obligation contained in the Indenture required to be performed by it.

### **Limited Liability of the Districts**

Except as expressly provided in the respective Notes and the Resolutions, the Districts shall not have any obligation or liability to the Authority, the Trustee, the Owners of the Bonds or the Bank with respect to the Indenture or the preparation, execution, delivery, transfer, exchange or cancellation of the Bonds or the receipt, deposit or disbursement of the principal of and interest on the Notes by the Trustee, or with respect to the performance by the Trustee of any obligation contained in the Indenture required to be performed by it.

Notwithstanding anything to the contrary in the Indenture or in any Note or document referred to therein, no District shall incur any obligation thereunder except to the extent payable from unencumbered revenues attributable to its 2009-2010 Fiscal Year, nor shall any District incur any obligation on account of any default, action or omission of any other District.

### **Limited Liability of the Trustee**

Except as expressly provided in the Indenture, the Trustee shall not have any obligation or liability to the Owners or the Bank with respect to the payment when due of the Notes by the Districts, or with respect to the observance or performance by the Districts of the other agreements, conditions, covenants and terms contained in the Notes and the Resolutions.

### **Amendment or Supplement of Indenture**

The Indenture and the rights and obligations of the Owners and the Trustee under the Indenture may be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding when the written consents of the Bank, of each credit enhancer with respect to Additional Bonds, if any, and of the Owners and the registered owners of Additional Bonds, if any, of a majority in aggregate principal amount of the Bonds and Additional Bonds then outstanding are filed with the Trustee. No such amendment or supplement shall: (i) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal of any Bond or extend the Maturity Date thereof (it being understood, however, that any such extension shall have no effect on the duration of the Letter of Credit) or modify the payment priority for any Bond without the prior written consent of the Owner of the Bond so affected; (ii) reduce the percentage of Owners and registered owners of Additional Bonds, if any, whose consent is required by the terms of the Indenture for the execution of certain amendments thereof or supplements thereto; or (iii) modify any of the rights or obligations of the Trustee without the Trustee's prior written consent thereto.

The Indenture and the rights and obligations of the Owners, the registered owners of Additional Bonds, if any, and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto, which shall become binding upon execution with the prior

written consent of the Bank and each credit enhancer with respect to Additional Bonds, if any, but without the written consents of any Owners or registered owners of Additional Bonds, if any, in order to make any modifications or changes to certain exhibits to the Indenture or to make any modifications or changes necessary or appropriate in the Opinion of Counsel to preserve or protect the exclusion from gross income of interest on any or all of the Bonds and Additional Bonds for federal income tax purposes or, but only to the extent that such amendment shall not materially adversely affect the interests of the Owners and the registered owners of Additional Bonds, if any, for any purpose including, without limitation, one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by the Authority, other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority, or to surrender any right reserved in the Indenture to or conferred therein on the Authority;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising thereunder which the Authority may deem desirable or necessary; or

(c) to modify, amend or supplement the Indenture or any supplement thereto in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds or Additional Bonds, if any, for sale under the securities laws of the United States of America or of any of the states of the United States of America and, if the Authority or Bond Counsel so determine, to add to the Indenture or any supplement thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute.

The Indenture and the rights and obligations of the Owners, the registered owners of the Additional Bonds, if any, and the Trustee under the Indenture may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the prior written consent of the Bank, any credit enhancer with respect to Additional Bonds, if any, or any Owners, for the purpose of issuing and securing one or more series of Additional Bonds.

## **Defeasance**

If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest and principal thereof at the times and in the manner provided in the Bonds and the Indenture, then such Owners shall cease to be entitled to the pledge of and lien on the Notes and Note payments and any interest in the funds held under the Indenture as provided therein, and all agreements and covenants of the Authority to such Owners under the Indenture shall thereupon cease, terminate and become void and shall be discharged and satisfied

Any Outstanding Bonds shall on their Maturity Date be deemed to have been paid within the meaning of and with the effect expressed in the preceding paragraph if there shall be on deposit with the Trustee moneys which are sufficient to pay the interest on and principal of such Bonds payable on and prior to their Maturity Date.

Any Outstanding Bonds shall prior to their Maturity Date be deemed to have been paid within the meaning of and with the effect expressed in the second preceding paragraph if there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient or United States Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the

United States of America are pledged for the payment of interest and principal, and which are purchased with moneys and are not subject to redemption except by the holder thereof prior to maturity (including any such securities issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the interest on and principal of which when paid will provide money which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an independent certified public accountant delivered to the Trustee and the Bank, to pay when due the interest on such Bonds and the principal of such Bonds on the Maturity Date.

After the payment of the interest on and principal of all Outstanding Bonds as provided in this section, at the Request of the Authority (if provided), the Trustee shall execute and deliver to the Authority and the Districts all such instruments as they may deem necessary or desirable to evidence the discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the Districts all money or deposits or investments held by it pursuant to the Indenture (except for moneys held in the Rebate Fund) which are not required for the payment of the interest on and principal of such Bonds and the Trustee shall surrender the Letter of Credit to the Bank for cancellation by the Bank.

Notwithstanding anything to the contrary in the Indenture, the Indenture shall not be discharged (i) without the prior written consent of the Bank, until all Predefault Obligations and Reimbursement Obligations have been paid or payment duly provided for by the Trustee's retention of sufficient funds to pay all Predefault Obligations and Reimbursement Obligations due or to become due as of the date of such discharge and (ii) until all Additional Bonds, if any, have been paid or deemed to have been paid in the same manner as the Bonds as described above.

## **Investments**

Any money held by the Trustee in each Payment Account and each Proceeds Subaccount attributable to the Bonds shall be invested by the Trustee, to the fullest extent practicable, upon the Request of any District, with respect to the corresponding Proceeds Subaccount or Payment Account, in Permitted Investments which will mature on or before the dates on which such money is anticipated to be needed for disbursement under the Indenture. The Trustee may act as principal or agent in the acquisition or disposition of any such deposit or investment and may at its sole discretion, for the purpose of any such deposit or investment, except as otherwise set forth in the Indenture, commingle any of the money held by it under the Indenture. The Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by it under the terms of and in accordance with the Indenture. To the extent the Trustee has not received any instruction with respect to the investment of funds in a Payment Account or a Proceeds Subaccount attributable to the Bonds, such amounts shall be invested by the Trustee in a money market fund offered by the Trustee or any of its affiliates meeting the requirements set forth in clause (d) of the definition of Permitted Investments. The amounts held in the several Payment Accounts and Proceeds Subaccounts will be accounted for separately for the respective Districts. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any interest or profits on such deposits and investments received by the Trustee shall be credited to the fund or account from which such investment was made.

Moneys held by the Trustee in the Costs of Issuance Fund, Pool Principal Fund and the Pool Interest Fund shall be invested in Permitted Investments as directed by the Authority.

Moneys held in the Credit Fund shall be invested as described in "SUMMARY OF INDENTURE—Credit Fund" herein.

## **Removal and Resignation of Trustee**

The Authority, with the consent of the Bank and any credit enhancer for Additional Bonds, if any, may at any time remove the Trustee by giving written notice of such removal by mail to the Trustee, all of the Districts, all Owners of Bonds and registered owners of Additional Bonds, if any, the Bank and any credit enhancer for Additional Bonds, if any, and the Trustee may at any time resign by giving written notice by mail of such resignation to the Bank, the Districts, all Owners of Bonds and registered owners of Additional Bonds, if any, and any credit enhancer for Additional Bonds, if any. The Bank and any other credit enhancer for Additional Bonds may at any time remove the Trustee if the Bank or other credit enhancer is not in default on its payment obligations under the Letter of Credit or the credit enhancement provided by the other credit enhancer. The Bank or other credit enhancer shall give written notice by mail of such removal to the Trustee, and all of the Districts, the other credit enhancers or the Bank, as applicable, and all Owners of the Bonds and registered owners of Additional Bonds, if any. If such removal is at the request of the Bank or other credit enhancer and the Trustee has not been removed due to its willful misconduct or negligence under the Indenture, the Bank or other credit enhancer shall reimburse the Authority and the Districts for any additional costs resulting from such removal. Upon giving any such notice of removal or upon receiving any such notice of removal or resignation, the Authority shall promptly appoint a successor Trustee acceptable to the Bank and each other credit enhancer by an instrument in writing; provided that if the Authority does not appoint a successor Trustee within 60 days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. Any successor Trustee shall be a commercial bank with trust powers or trust company in good standing, doing business and having a principal corporate trust office either in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000 and subject to supervision or examination by state or national authorities.

Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only when the Trustee has provided written acceptance of its appointment to the Authority, and the Letter of Credit and each other credit enhancement, if any, are transferred in accordance with its terms.

## **SUMMARY OF THE CREDIT AGREEMENT**

The following is a summary of certain provisions of the Credit Agreement. Reference is made to the Credit Agreement in its entirety for a full recital of the provisions thereof.

### **Reimbursement and Other Payments**

Under the Credit Agreement, each District agrees to pay, or to cause the Trustee to pay, to the Bank from amounts available therefor under the Indenture, any amount that is drawn on the Letter of Credit and applied to the payment of principal or interest on the District's Note, together with interest on such amount, payable on demand. Each District also agrees to pay to the Bank its share of the fees required under the Credit Agreement and, subject to certain limitations, additional amounts sufficient to compensate the Bank for increased costs resulting from changes in applicable law or regulations, or interpretations thereof, and the costs and expenses of the Bank in connection with any Event of Default under the Credit Agreement or the exercise of its rights under the Credit Agreement. Notwithstanding anything to the contrary in the Credit Agreement or in any Note Document referred to in the Credit Agreement, no District shall incur any obligation to reimburse the Bank for any drawing under the Letter of Credit, except to the extent payable from unencumbered revenues attributable to its Fiscal Year 2009-2010, nor shall any District incur any obligation on account of any default, action, or omission of any other District.

## **Certain Covenants**

Each District individually covenants and agrees under the Credit Agreement, among other things (unless the Bank otherwise consents in writing), (a) to observe and perform fully and faithfully all of its obligations thereunder and under the other Note Documents to which it is a party, (b) to comply in all material respects with any and all applicable laws material to the Indenture, the other Note Documents, the Credit Agreement, and the Letter of Credit, (c) to furnish or cause the Trustee to furnish to the Bank promptly, from time to time, such information regarding the operations, financial condition, and property of the District as the Bank may reasonably request, (d) to notify the Bank promptly of any Default or Event of Default of which the District has knowledge, setting forth the details of such Default or Event of Default and any and all action the District has taken or proposes to take with respect thereto, (e) to notify the Bank in writing, promptly after the same shall have become known to the District, of any action, suit, or proceeding at law or in equity, or by or before any governmental instrumentality or other agency that, if adversely determined, might materially impair its ability to perform its obligations under the Credit Agreement or any Note Document or might have a material adverse effect on its operations, property, assets or condition, (f) to the extent authorized by law, to pass, make, do, execute, acknowledge, and deliver every and all such further resolutions, acts, deeds, conveyances, assignments, recordings, filings, transfers, and assurances as may be reasonably requested by the Bank for the better assuring, conveying, granting, assigning, and confirming all and singular the rights, revenues, and other funds pledged or assigned to the payment of the Notes (including the interest thereon) or payment of its obligations under the Credit Agreement or under the Note Documents, and (g) to preserve and maintain its existence, rights and franchises under the laws of the State of California.

## **Events of Default**

Each of the following events constitutes an Event of Default under the Credit Agreement:

- (a) the occurrence and continuance of an “Event of Default” under the Indenture or any other Note Document;
- (b) the failure of any District to pay when due principal of or interest on any Note;
- (c) the failure of any District to pay any amount when due under the Credit Agreement;
- (d) the failure of any District to perform or observe certain covenants under the Credit Agreement;
- (e) the failure of any District to perform or observe any other term, covenant or agreement contained in the Credit Agreement or any of the Note Documents to which it is a party not specified in clauses (a), (b), (c), and (d) above, if such failure shall continue for a period of fifteen calendar days after written notice thereof by the Bank to the applicable District;
- (f) any warranty, representation, or other written statement made by or on behalf of any District contained in the Credit Agreement or in any of the Note Documents or in any instrument furnished in compliance with or in reference to any of the foregoing, is false or misleading in any material respect when made; or
- (g) any material provision of the Credit Agreement or any of the Note Documents to which any District is a party shall at any time for any reason cease to be valid and binding in accordance with its terms on such District, or shall be declared to be null and void, or the validity

or enforceability thereof shall be contested by the District or a proceeding shall be commenced by the District seeking to establish the invalidity or unenforceability thereof, or the District shall deny that it has any further liability or obligation thereunder.

## **Remedies**

Upon the occurrence of an Event of Default, and notice thereof to the Trustee, the Bank may, in its sole discretion, but shall not be obligated to, exercise all or any of its rights and remedies as it may have under applicable law and under any Note Document. No failure or delay on the part of the Bank to exercise any right or remedy under the Credit Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy under the Credit Agreement preclude any further exercise thereof or the exercise of any further right or remedy thereunder.

## **TAX EXEMPTION**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. The amount treated as interest on the Bonds and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Service Notice 94-84. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed opinion of Special Bond is set forth in Appendix C hereto.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "IRS") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal income tax purposes is (a) the stated interest payable at maturity or (b) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the IRS provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of Bonds if the taxpayer elects original issue discount treatment.

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 obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, 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.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and each of the Districts have made certain representations and covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or a failure to comply with these covenants may result in such interest being included in federal gross income, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with such actions, events or matters.

One of the covenants of the Districts referred to above requires any District that expects to issue more than \$5,000,000 (or in certain circumstances up to \$15,000,000) in tax-exempt obligations within the calendar year (the "Small Issuer Test") reasonably and prudently to calculate the amount, if any, of excess investment earnings on the proceeds of its Note which must be rebated to the United States, to set aside from lawfully available sources sufficient moneys to pay such amounts and to otherwise do all things necessary and within its power and authority to assure that interest on its Note is excluded from gross income for federal income tax purposes. Under the Code, if such District spends 100% of the proceeds of its Note within six months after issuance, there is no requirement that there be a rebate of investment profits in order for interest on the Note to be excluded from gross income for federal income tax purposes. The Code also provides that such proceeds are not deemed spent until all other available moneys (less a reasonable working capital reserve) are spent. Each District expects to satisfy either the Small Issuer Test or the six-month expenditure test or, if it fails to do so, to make any required rebate payments from moneys received or accrued during the 2009-2010 Fiscal Year. To the extent that any rebate cannot be paid from such moneys, the law of California is unclear as to whether such covenant would require the Districts to pay any such rebate. This would be an issue only if it were determined that a District's calculation of expenditures of Note proceeds or of rebatable arbitrage profits, if any, were incorrect.

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

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 Bond Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, or clarification of the Code or court decisions may also affect the market price for, 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 and litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the

Authority or the Districts, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Districts have covenanted, however, to comply with the requirements of the Code.

In recent years, the IRS has increased its audit examination of tax and/or revenue anticipation notes, including pooled tax and/or revenue anticipation note programs, for compliance with federal tax law requirements. None of the pool bonds previously issued by the Authority have been the subject of an audit examination by the IRS. However, there can be no assurance that the IRS will not conduct such an audit with respect to the Bonds. 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, the Districts or the Bond Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. However, Orrick, Herrington & Sutcliffe LLP ("Orrick") has been bond counsel with respect to all of the prior issues of pool bonds issued by the Authority, and Orrick expects to be bond counsel on future issuances of bonds. In the event of an audit examination by the IRS, Orrick expects to be engaged by the Authority to defend the Authority and the exclusion from gross income of the interest on the Bonds.

Under current procedures, parties other than the Authority, the Districts and their appointed counsel, including the Bond 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 obligations is difficult, obtaining an independent review of IRS positions with which the Authority or the Districts legitimately disagree, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Districts or the Bond Owners to incur significant expense.

#### **ABSENCE OF LITIGATION**

There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the Bonds, the Notes, the Indenture or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Districts taken with respect to any of the foregoing.

There is no litigation pending or, to the knowledge of the Authority, threatened, questioning the existence of the Authority, or the title of the officers of the Authority to their respective offices, or the power and authority of the Authority to issue the Bonds.

#### **FORWARD LOOKING STATEMENTS**

This Official Statement contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect," "budgeted" and similar expressions identify forward looking statements. 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.

## **RATINGS**

Moody's Investors Service ("Moody's") has assigned the rating of "MIG1" on the Senior Bonds and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P"), has assigned the rating of "SP1+" on the Senior Bonds. Moody's has assigned the rating of "MIG1" on the Subordinate Bonds and S&P has assigned the rating of "SP1+" on the Subordinate Bonds, with the understanding that, upon issuance of the Subordinate Bonds, the Letter of Credit will be issued by the Bank. The Bonds are short-term obligations which mature in one year and thus do not qualify for a long-term rating from either Moody's or S&P. Certain information was supplied on behalf of the Authority and the Districts to the rating agencies to be considered in evaluating the Bonds. Any rating issued will reflect only the views of the rating agencies, and any explanation of the significance of such rating on the Bonds should be obtained from the rating agencies as follows: Moody's, 99 Church Street, New York, New York 10007, and S&P, 55 Water Street, New York, New York 10041. There is no assurance that a rating obtained for each of the series of Bonds will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by a rating agency for the Bonds if, in its judgment, circumstances so warrant. The Authority and the Districts undertake no responsibility either to bring to the attention of the Owners of the Bonds downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Bonds.

## **UNDERWRITING**

The Senior Bonds are to be purchased by the Underwriter at a price of \$486,503,769.60. The Subordinate Bonds are to be purchased by the Underwriter at a price of \$54,098,250.00. The Purchase Contract provides that the obligations to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. In addition to its role as the Underwriter, Piper Jaffray & Co. serves in roles involving the structuring of the Bonds and administering the Program, for which Piper Jaffray & Co. is paid a separate fee from the proceeds of the Bonds.

The Underwriter may offer and sell the Bonds to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

## **CERTAIN LEGAL MATTERS**

At the time of the delivery of the Bonds, Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority, will deliver its final approving opinion. A proposed form of such approving opinion is contained in Appendix C hereto and will be delivered to The Depository Trust Company with the Bonds. Bond Counsel has undertaken no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Underwriter by its counsel, Kutak Rock LLP, for the Bank by its counsel, Foley & Lardner LLP, and for the Districts by Kutak Rock LLP. Payment of the fees of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, Kutak Rock LLP, Underwriter's Counsel and Special Districts' Counsel, and Foley & Lardner LLP, Bank Counsel, is contingent upon the issuance of the Bonds.

## **TRUSTEE**

The Authority has appointed U.S. Bank National Association (the “Trustee”), a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture and other documents related to the Bonds. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and assumes no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the Authority or the Districts of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Authority or the Districts. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and had reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

Additional information about the Trustee may be found at its website at <http://www.usbank.com/corporatetrust>. The Trustee’s website is not incorporated into this Official Statement by such reference and is not a part hereof.

## **RELATED PARTIES**

U.S. Bank National Association, a national banking association, is the initial Trustee and the initial Bank. The United States Comptroller of the Currency, which regulates national banks permits national banks and affiliated national banks to act as both indenture trustee and letter of credit bank if they maintain adequate controls to manage the potential for a conflict of interest. U.S. Bank National Association has indicated that it has adopted and will adhere to procedures and policies which U.S. Bank National Association believes comply with the requirements of the Comptroller of the Currency and are designed to manage such potential conflict of interest.

The Indenture provides that the Trustee may accept, hold and draw upon a Letter of Credit issued by itself or by any of its corporate affiliates to provide security and a source of payment for the Subordinate Bonds. Under the Indenture, the Trustee covenants that it shall at all times maintain adequate controls to manage any potential conflict of interest. The Indenture provides that, notwithstanding any other provision therein to the contrary, while the Bank issuing the Letter of Credit is the Trustee or an affiliate of the Trustee and such Bank has not failed to honor a properly presented draw on the Letter of Credit, the Trustee shall have no discretion with respect to the exercise of remedies upon an event of default under the Indenture and shall do so only upon the written direction of such Bank. The Indenture also provides that the Trustee shall immediately tender its resignation and take prompt steps to have a successor trustee appointed satisfying the requirements of the Indenture if such affiliated Bank shall fail at any time to honor a properly presented draw on the Letter of Credit. The Authority cannot predict whether, as a practical matter in such circumstances, these provisions will be effective to bring about a timely appointment of a successor trustee or whether such appointment will be subject to delays.

## **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Agreement dated as of July 1, 2009 (the “Continuing Disclosure Agreement”), by and between the Authority and U.S. Bank National Association, as Dissemination Agent, the Authority has agreed (the “Undertaking”) for the benefit of the holders and

beneficial owners of the Bonds as follows, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. Part 240, Section 240.15c2-12) (the “Rule”).

If a Material Event occurs while any of the Bonds are outstanding, the Authority shall provide a Material Event Notice in a timely manner to the Dissemination Agent. The Dissemination Agent shall forward each Material Event Notice received from the Authority in a timely manner to the Municipal Securities Rulemaking Board. “Material Event” means any of the following events, if material, with respect to the Bonds: (a) principal and interest payment delinquencies; (b) non-payment related defaults; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (g) modifications to rights of the holders and Beneficial Owners (as defined below) of the Bonds; (h) optional, contingent or unscheduled bond calls; (i) defeasances; (j) release, substitution, or sale of property securing repayment of the Bonds; and (k) rating changes. “Material Event Notice” means written or electronic notice of a Material Event.

The Authority’s obligations under the Continuing Disclosure Agreement 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 Authority shall give notice of such termination in the same manner as for a Material Event.

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Authority and the Dissemination Agent may amend the Continuing Disclosure Agreement, and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions regarding the giving of a Material Event Notice, 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 the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders or Beneficial Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of holders or Beneficial Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, notice of such change shall be given in the same manner as for a Material Event, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver.

Nothing in the Continuing Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other notice of occurrence of a Material Event, in addition to that which is required by the Continuing Disclosure Agreement. If the Authority chooses to include any information in any notice of occurrence of a Material Event in addition to that which is specifically required by the Continuing Disclosure Agreement, the Authority shall have

no obligation under the Continuing Disclosure Agreement to update such information or include it in any future notice of occurrence of a Material Event.

In the event of a failure of the Authority to comply with any provision of the Continuing Disclosure Agreement, 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 Authority to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Authority to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

A failure by the Authority to comply in any material respect with the terms of the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Pool Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The Authority has never failed to comply in any material respect with any previous undertaking with regard to said Rule to provide annual reports or notices of material events, as applicable.

The Districts have covenanted to notify the Trustee within 5 days of any Default or Event of Default of which such District has knowledge, setting forth the details of such Default or Event of Default and any and all action which such District has taken or proposes to take with respect thereto.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY]

**EXECUTION AND DELIVERY**

The execution and delivery of this Official Statement by the Authority acting on behalf of itself and each of the Districts has been duly authorized by the Authority and each District under its respective Resolution.

CALIFORNIA SCHOOL CASH RESERVE  
PROGRAM AUTHORITY

By  /s/ Larry F. Brown

Title  Treasurer

## APPENDIX A

### DEFINITIONS OF CERTAIN TERMS

The following terms shall have the following meanings unless the context expressly or by necessary implication requires otherwise:

“*Additional Bonds*” means all additional bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and a Supplemental Indenture.

“*Additional Notes*” means the additional series of tax and revenue anticipation notes of a District issued pursuant to its Resolution.

“*Authority*” means the California School Cash Reserve Program Authority, duly organized and existing under and by virtue of the laws of the State of California.

“*Authorized District Representative*” means the President, Chair or Secretary or Clerk of the governing board of a District or Superintendent of a District or such other officers of a District designated in such District’s Resolution or any other person at the time designated to act on behalf of such District by written certificate furnished to the Trustee, containing the specimen signature of such person and signed on behalf of such District by the Chair, President, Clerk or the Secretary of the governing board of such District or Superintendent of such District.

“*Bank*” means U.S. Bank National Association, or any successor thereto.

“*Bond Payment Fund*” means the fund by that name established in the Indenture

“*Bonds*” means, collectively, the Senior Bonds and the Subordinate Bonds.

“*Business Day*” means any day except (a) Saturday, (b) Sunday or (c) any day on which banks located in the city in which the designated trust office of the Trustee and the principal office of the Bank is located, or in San Francisco, California, Los Angeles, California, or New York, New York, are required or authorized to remain closed.

“*Certificate*” or “*Request*” with respect to a District means an instrument in writing signed on behalf of such District by an Authorized District Representative, and with respect to the Authority, means an instrument in writing signed on behalf of the Authority by its Chair, Secretary, Treasurer or Executive Director or other person at the time designated to act on behalf of the Authority by written certificate furnished to the Trustee..

“*Code*” means the Internal Revenue Code of 1986 and the regulations issued or applicable thereunder.

“*Costs of Issuance*” means all items of expense directly or indirectly payable by or reimbursable to a District or the Authority and related to the authorization, execution and delivery of the Notes and the related sale of the Bonds, which may include but are not limited to, the Letter of Credit fees or premium, costs of preparation, reproduction and delivery of documents, filing and recording fees, fees and charges of the Trustee, Trustee counsel fees, bond counsel fees and charges, other legal fees and charges, fees and disbursements of consultants and professionals, fees and charges for preparation, execution, safekeeping and delivery of the Bonds and any other costs, charges or fees (including any supplemental credit

enhancement on any individual Note) in connection with the original issuance of the Notes and the Bonds.

“*Costs of Issuance Fund*” means the fund by that name established pursuant to the Indenture.

“*Credit Agreement*” means the Credit Agreement dated as of July 1, 2009, by and between each of the Districts and the Bank.

“*Credit Fund*” means the fund by that name established pursuant to the Indenture.

“*Default Rate*” means the rate of interest per annum payable with respect to each outstanding portion of each Defaulted Note which (a) if the Defaulted Note is paid in whole or in part by an unreimbursed draw on the Letter of Credit, shall equal the rate specified in the Credit Agreement, or (b) if the Defaulted Note is unpaid and the Letter of Credit is not applicable thereto, is the rate of interest per annum sufficient to produce a yield on the outstanding portion of such Defaulted Note equal to the rates of interest payable on the Bonds (or applicable portions thereof) computed on the basis of a 360-day year consisting of twelve thirty-day months.

“*Defaulted Note*” means a Note (a) the principal of and/or interest on which has been paid in whole or in part with proceeds of a drawing under the Letter of Credit which remains not fully reimbursed on the Maturity Date or (b) any of the principal of or interest on which is not paid on the Maturity Date.

“*Districts*” means the California school districts, community college districts and county boards of education and, where appropriate, the counties electing to be the issuers of the Notes for the school districts, community college districts and county boards of education that are not fiscally accountable, and in each case their successors and assigns, which are participating in the Program and issuing the Notes.

“*Indenture*” means the Indenture executed and entered into as of July 1, 2009, by and between the Trustee and the Districts, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance therewith.

“*Letter of Credit*” means the irrevocable direct-pay letter of credit issued by the Bank securing the payment of the principal of and interest on the Subordinate Bonds.

“*Maturity Date*” means the date on which the principal and interest on each Note becomes due and payable, being July 1, 2010.

“*Moody’s*” means Moody’s Investors Service, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“*Note Documents*” means, at any time, each of the following as in effect or as outstanding, as the case may be, at such time: (a) the Notes, (b) the Indenture, (c) the Purchase Agreements, (d) the Resolutions, (e) the Purchase Contract, (f) the Certificates, and (g) the closing certificates delivered by the Districts in connection with the issuance of the Notes.

“*Notes*” means the tax and revenue anticipation notes issued by the Districts in the respective principal amounts described in the Indenture.

“*Opinion of Counsel*” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed by the Authority and satisfactory to and approved by the Trustee (who shall be under no liability by reason of such approval).

“*Outstanding*” means all Bonds except—

- (a) Bonds cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the Indenture;  
and
- (c) Bonds in lieu of or in exchange or substitution for which other Bonds shall have been authenticated and delivered by the Trustee under the Indenture.

“*Owner*” means the registered owner of any Outstanding Bond.

“*Payment Accounts*” means the subaccounts created in the Bond Payment Fund under the Indenture.

“*Permitted Investments*” means any of the following to the extent then permitted by law and approved by the Bank:

- (a) United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations of, or obligations guaranteed directly or indirectly as to full and timely payment, by the United States of America or securities or other instruments evidencing ownership interest in such obligations and rated in the highest applicable rating category by the Rating Agency then rating the Senior Bonds or in specified portions of the interest on or principal of such obligations stripped at Treasury level;
- (b) Any obligations which are then legal investments for moneys of the Districts under the laws of the State of California; provided, that if such investments are not fully insured by the Federal Deposit Insurance Corporation, such investments shall be, or shall be issued by entities the debt securities of which are, rated in the highest short-term (with regard to any modifiers) or one of the two highest long-term rating categories by Moody’s and S&P, (or whichever one of them is then rating the Senior Bonds);
- (c) Units of a money-market fund portfolio composed solely of obligations guaranteed by the full faith and credit of the United States of America rated in one of the two highest rating categories by Moody’s and S&P (or whichever one of them is then rating the Senior Bonds);
- (d) Units of a money-market fund portfolio rated in the highest rating category by S&P and Moody’s;
- (e) With the consent of the Bank, an investment agreement which results in a maintenance of the original rating on the Senior Bonds; provided such agreement is with a financial entity (the “Provider”), or with a financial entity whose obligations are guaranteed or insured by a financial entity (the “Guarantor”), the Provider’s or the Guarantor’s senior debt or investment contracts or obligations under its investment contracts being rated in one of the two highest long-term rating categories by Moody’s and S&P (or whichever one of them is then rating the Senior Bonds) or whose commercial paper rating is in the highest rating category (with regard

to any modifiers) of each such rating agencies (or whichever one of them is then rating the Senior Bonds) or is fully collateralized by investments listed in subsection (a) hereof as required by S&P and Moody's (or whichever one of them is then rating the Senior Bonds) to be rated in one of the two highest rating categories;

(f) Any other prudent investment rated in one of the two highest rating categories by Moody's and S&P (or whichever one of them is then rating the Senior Bonds) approved by the Bank and the Authority;

(g) The Local Agency Investment Fund managed by the office of the Treasurer of the State of California; or

(h) Any County Treasury of a County in which the District is situated, the proceeds of whose note are to be invested, provided that the investment of such proceeds by the applicable County Treasurer is made in compliance with California Government Code Section 53601.

*"Predefault Obligations"* means (a) the respective obligations of the Districts to the Bank under the Letter of Credit, (b) all indemnification to the Bank by such respective Districts, (c) all other amounts due to the Bank by such respective Districts under the Letter of Credit (including interest on overdue Predefault Obligations to the extent permitted by law); and (d) if applicable, all fees and expenses of the Bank to the extent they are not costs of issuance, becoming due prior to an Event of Default under the respective Resolutions.

*"Pool Interest Fund"* means the fund by that name established in the Indenture.

*"Pool Principal Fund"* means the fund by that name established by the Indenture.

*"Pricing Confirmation"* means, collectively, those certain pricing confirmation supplements expected at the time of pricing each of the series of Notes and attached as Schedule I to the Purchase Agreement applicable to such series of Notes

*"Principal Office of the Trustee"* means the principal corporate trust office of the Trustee, which, for the Trustee initially appointed under the Indenture, is located in Los Angeles, California; provided that for transfer, exchange, payment and registration of Bonds, "Principal Office of the Trustee" means the corporate trust office of U.S. Bank National Association in Los Angeles, California, or such other office specified by the Trustee.

*"Principal Payment Date"* means the date on which principal on the Bonds becomes due and payable, being July 1, 2010.

*"Proceeds Fund"* means the fund by that name established in the Indenture.

*"Proceeds Subaccounts"* means the Proceeds Subaccounts created in the Proceeds Fund under the Indenture relating to a series of Notes.

*"Program"* means the California School Cash Reserve Program pursuant to which the Bonds are issued to assist Districts in financing cash flow deficits.

*"Purchase Agreement"* means, collectively, those certain Purchase Agreements by and between the respective Districts and the Authority relating to the purchase of the applicable series of Notes.

“*Purchaser*” means Piper Jaffray & Co., as the underwriter and purchaser of the Bonds.

“*Rating Agency*” means Moody’s and S&P, or whichever one of them is then rating the Bonds.

“*Reimbursement Obligations*” means (a) the respective obligations of the respective Districts under the Letter of Credit, including, without limitation, obligations evidenced by Defaulted Notes, (b) all indemnification to the Bank by respective Districts under the Letter of Credit, (c) all other amounts at any time due to the Bank by the respective Districts under the Letter of Credit (including any Predefault Obligations and interest on any overdue Reimbursement Obligations to the extent permitted by law), and (d) if applicable, all fees and expenses of the Bank under the Credit Agreement, exclusive of costs of issuance, becoming due as a result of or after an Event of Default under the respective Resolutions.

“*Resolutions*” means the respective resolutions adopted by the governing boards of the Districts and, where applicable (and if a respective county elected to do so), in the case of a school districts, community college districts and county boards of education that are not fiscally accountable, the respective resolutions adopted by the county boards of supervisors, in each case authorizing the issuance of the Notes and approving the execution and delivery of the Indenture and the Bonds.

“*S&P*” means Standard & Poor’s, a division of the McGraw-Hill Companies, Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

“*Senior Bonds*” means the \$478,080,000 California School Cash Reserve Program Authority 2009-2010 Senior Bonds, Series A, authorized by the Indenture and at any time Outstanding thereunder.

“*Senior Notes*” means, with respect to each District, its Note and each series of Additional Notes issued by the District which are payable on a parity basis with its Note.

“*Subordinate Bonds*” means the \$53,125,000 California School Cash Reserve Program Authority 2009-2010 Subordinate Bonds, Series A, authorized by the Indenture and at any time Outstanding thereunder.

“*Subordinate Notes*” means, with respect to each District, each series of Additional Notes issued by the District which are payable on a subordinate basis with its Note.

“*Supplemental Indenture*” means any indenture approved by the Authority in accordance with the Indenture amending or supplementing the Indenture or any Supplemental Indenture, or providing for the issuance of Additional Bonds.

“*Trustee*” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its corporate trust office in Los Angeles, California, or any other Bank or trust company at its corporate trust office which may at any time be substituted in its place as Trustee as provided in the Indenture.

“*Underwriter*” means Piper Jaffray & Co.

(This page has been left blank intentionally.)

**APPENDIX B**

**CERTAIN BACKGROUND INFORMATION FOR DISTRICTS**

County	District	Principal Amount of Notes	Estimated FY 2008/09 ADA (1)	Projected FY 2009/10 ADA (1)	FY 2008/09 Total Revenue from Revenue Limit Sources (2)	FY 2008/09 Budgeted Ending General Fund Balance (2)	FY 2007/08 Actual Ending General Fund Balance (3)	Estimated OPEB (1)(4) Actuarial Accrued Liability
Alameda	(5) Pleasanton Unified	9,235,000	14,352	14,403	91,928,467	422,969	1,982,051	26,777,000
Alameda	Sunol Glen Unified	400,000	224	224	1,386,336	183,807	231,551	-
Amador	(5) Amador County Office of Education	455,000	205	205	2,072,415	397,516	1,320,639	-
Amador	(5) Amador County Unified	2,955,000	4,312	4,312	24,204,159	938,042	4,588,046	-
Calaveras	Bret Harte Union High	1,725,000	803	767	9,510,426	1,987,751	2,547,262	1,677,435
Calaveras	Calaveras Unified	1,585,000	3,411	3,411	20,135,384	2,726,160	5,389,076	7,242,952
Calaveras	Vallecito Union Elementary	920,000	766	760	5,683,501	682,383	1,226,366	1,768,744
Contra Costa	Walnut Creek	525,000	3,165	3,194	17,037,562	4,701,341	5,341,846	124,467
Del Norte	Del Norte County Unified	1,140,000	3,429	3,409	19,464,388	1,434,902	6,568,850	2,851,156
El Dorado	Camino Union Elementary	335,000	420	421	2,418,223	638,299	673,358	479,200
Fresno	West Hills Community College	3,895,000	5,201 (6)	5,356 (6)	37,426,547 (7)	2,621,990	4,193,706	5,392,824
Fresno	Sanger Unified	5,000,000	10,049	11,049	51,878,324	6,513,250	6,924,801	5,178,600
Fresno	Central Unified	7,370,000	13,714	13,714	80,184,184	7,081,549	11,479,447	53,027,398
Fresno	Kerman Unified	1,260,000	4,197	4,197	23,812,028	6,134,862	6,475,477	5,943,169
Glenn	(5) Willows Unified	990,000	1,622	1,581	9,753,471	637,606	1,750,406	2,680,000
Humboldt	Northern Humboldt Union High	765,000	1,580	1,505	10,731,625	90,272	1,270,201	4,779,606
Imperial	Brawley Union High	1,110,000	1,816	1,800	12,463,318	1,518,478	1,416,918	2,453,643
Imperial	Calipatria Unified	1,365,000	1,132	1,132	6,971,820	1,240,433	1,829,682	-
Imperial	Central Union High	3,390,000	3,992	3,992	26,166,755	1,908,109	5,584,240	9,392,463
Imperial	El Centro Elementary	5,000,000	5,472	5,432	30,946,714	7,709,641	8,622,933	16,304,815
Imperial	Holtville Unified	840,000	1,697	1,657	9,811,366	1,437,266	2,346,714	766,667
Imperial	San Pasqual Valley Unified	395,000	691	691	4,577,311	1,157,850	2,150,776	-
Inyo	Bishop Union Elementary	675,000	1,197	1,156	6,648,844	1,456,238	1,749,836	2,401,442
Kern	Delano Union Elementary	5,000,000	7,467	7,467	42,014,937	5,021,320	7,397,034	12,574,034
Kern	Lamont	1,235,000	2,532	2,532	14,186,547	2,562,857	3,054,006	6,122,888
Kern	(5) Southern Kern Unified	3,610,000	3,225	3,080	19,748,733	3,148,638	3,552,750	4,296,634
Lake	Lakeport Unified	355,000	1,540	1,512	9,319,976	1,371,018	2,077,327	1,843,652
Lassen	Janesville Union Elementary	85,000	400	400	2,366,352	393,881	567,546	-
Los Angeles	Bellflower Unified	4,365,000	14,018	13,818	81,978,001	22,484,080	23,163,061	11,048,154
Los Angeles	Eastside Union	4,525,000	3,095	3,054	17,573,730	1,815,875	3,197,695	4,575,016
Los Angeles	Lancaster Elementary	5,160,000	14,633	14,162	81,200,571	5,927,822	14,307,557	27,100,534
Los Angeles	(5) Las Virgenes Unified	4,000,000	11,247	11,111	66,036,699	4,203,753	9,633,266	-
Los Angeles	William S. Hart Union High	12,710,000	22,031	21,926	147,973,654	13,398,447	20,536,049	36,700,000
Los Angeles	Walnut Valley Unified	2,830,000	15,048	14,776	87,078,938	13,750,024	13,079,839	6,523,251
Madera	Madera County Board of Education	5,000,000	705	710	10,109,237	3,218,217	2,436,677	8,246,128
Madera	Bass Lake Joint Union	650,000	882	857	5,099,329	1,195,141	1,865,032	2,562,415
Madera	Golden Valley Unified	1,010,000	1,887	1,906	12,922,421	1,901,463	2,220,258	-
Madera	Yosemite Unified	2,845,000	2,190	2,090	15,734,742	1,172,460	2,859,204	3,028,829
Marin	Dixie Elementary	2,895,000	1,771	1,804	10,802,632	3,651,100	3,812,181	1,042,000
Marin	San Rafael City Elementary	4,070,000	3,667	3,725	20,111,306	2,403,799	4,494,291	4,621,185
Marin	San Rafael City High	5,525,000	2,022	2,022	19,348,481	5,388,500	8,080,606	3,820,122
Mariposa	Mariposa County Board of Education	405,000	2,180	2,178	1,614,320	278,066	421,328	6,248,538
Mariposa	Mariposa County Unified	985,000	1,857	1,805	13,265,104	1,551,941	2,367,421	-
Mendocino	Mendocino Unified	390,000	506	474	4,908,193	1,087,949	1,538,763	1,427,542
Mendocino	Arena Union Elementary-Point Arena Joint Union High	1,220,000	355	360	4,543,430	893,646	1,011,528	-
Merced	Ballico-Cressey Elementary	135,000	300	293	1,685,495	449,532	450,121	-
Merced	Hilmar Unified	1,380,000	2,232	2,232	12,635,645	695,627	2,033,990	-
Merced	McSwain Union Elementary	435,000	787	772	4,354,040	875,466	936,707	-
Merced	Planada Elementary	135,000	774	767	4,301,142	646,447	913,737	1,117,729
Merced	Weaver Union Elementary	1,920,000	2,283	2,283	12,313,913	1,691,687	2,593,066	864,448
Mono	Mono County Board of Education	400,000	104	110	2,877,677	999,373	1,489,490	953,510
Mono	Eastern Sierra Unified	1,785,000	450	450	6,760,000	1,642,050	3,035,172	1,438,273
Monterey	Monterey County Board of Education	920,000	1,709	1,709	20,039,604	9,627,141	15,959,690	19,687,925

County	District	Principal Amount of Notes	Estimated FY 2008/09 ADA (1)	Projected FY 2009/10 ADA (1)	FY 2008/09 Total Revenue from Revenue Limit Sources (2)	FY 2008/09 Budgeted Ending General Fund Balance (2)	FY 2007/08 Actual Ending General Fund Balance (3)	Estimated OPEB (1)(4) Actuarial Accrued Liability
Monterey		6,210,000	7,141	7,141	39,174,177	3,296,557	12,326,244	9,704,775
Monterey	(5) Monterey Peninsula Unified	2,570,000	10,581	10,550	61,676,527	7,059,231	15,959,690	77,715,411
Monterey		5,000,000	1,654	1,662	18,500,692	987,530	2,939,072	6,729,234
Napa	Calistoga Joint Unified	730,000	825	828	8,794,310	1,751,742	2,911,646	1,234,217
Napa	St. Helena Unified	5,000,000	1,312	1,237	17,954,162	629,871	1,236,900	2,461,125
Orange	Huntington Beach City	2,390,000	6,454	6,454	35,267,724	5,824,021	7,175,210	5,173,570
Placer	Placer Union High	3,160,000	4,385	4,325	30,104,237	3,180,433	6,362,092	4,754,416
Riverside	Hemet Unified	14,775,000	22,037	21,776	130,276,237	22,505,300	21,687,938	26,724,934
Riverside	Jurupa Unified	7,970,000	19,214	19,119	114,523,320	13,689,554	19,454,549	24,039,754
Riverside	(5) Palo Verde Unified	155,000	3,456	3,396	19,817,324	2,098,877	3,385,590	-
Riverside	Perris Elementary	3,060,000	5,223	5,223	30,247,484	4,165,381	7,349,281	24,159,630
Riverside	Riverside Community College	10,725,000	29,861 (6)	29,861 (6)	173,629,173 (7)	20,737,438	18,801,018	9,766,024
Riverside	Lake Elsinore Unified	14,775,000	20,539	19,893	125,545,035	8,348,560	14,757,845	14,847,000
Riverside	Temecula Valley Unified	17,230,000	27,405	27,460	161,858,368	14,766,759	26,760,998	-
Riverside	Murrieta Valley Unified	15,035,000	20,413	20,413	120,327,271	14,345,934	19,036,523	3,785,108
Sacramento	Galt Joint Union Elementary	1,760,000	4,119	4,015	23,132,042	2,411,904	4,549,326	5,104,307
Sacramento	Galt Joint Union High	675,000	2,302	2,212	15,342,233	2,348,159	2,771,832	-
Sacramento	River Delta Unified	1,220,000	2,006	2,006	12,049,628	1,112,150	3,882,851	3,313,242
Sacramento	(5) Natomas Unified	11,895,000	10,179	10,420	59,217,481	4,709,431	9,622,263	14,363,145
San Benito	Hollister Elementary	1,535,000	5,452	5,281	31,038,555	1,851,768	3,873,661	11,014,105
San Benito	San Benito High	4,825,000	2,921	2,884	19,826,187	4,674,515	5,101,871	-
San Bernardino	Barstow Unified	1,675,000	6,396	6,146	37,949,665	6,970,447	9,060,747	-
San Bernardino	Redlands Unified	4,930,000	20,314	20,314	117,385,748	13,073,575	20,304,829	22,102,940
San Bernardino	Hesperia Unified	7,395,000	20,512	20,135	117,632,767	13,033,744	18,644,786	22,306,071
San Joaquin	Escalon Unified	1,485,000	2,972	2,922	16,597,215	2,730,790	5,424,565	2,927,396
San Joaquin	Linden Unified	1,125,000	2,433	2,433	14,118,528	2,149,420	2,721,601	1,797,039
San Joaquin	Lodi Unified	8,605,000	27,607	27,202	164,371,640	20,213,735	38,402,488	27,769,135
San Joaquin	Manteca Unified	9,380,000	22,010	21,837	130,433,966	23,152,461	27,873,100	34,339,460
San Joaquin	Ripon Unified	1,085,000	2,880	2,880	16,792,783	2,250,114	3,543,036	3,411,153
San Joaquin	Stockton Unified	19,690,000	34,094	33,703	201,760,855	23,075,753	47,850,556	27,392,944
San Mateo	Bayshore	230,000	427	425	2,580,325	218,631	317,014	-
San Mateo	Belmont-Redwood Shores	3,070,000	2,657	2,737	19,739,356	2,092,209	2,316,042	1,224,799
San Mateo	Hillsborough City	2,710,000	1,428	1,428	12,679,493	2,103,659	2,385,729	2,407,434
San Mateo	Jefferson Union High	2,900,000	4,735	4,675	35,186,210	6,496,988	8,269,360	19,758,350
San Mateo	Pacifica	1,125,000	2,990	2,990	17,807,438	1,534,336	3,012,486	10,305,000
San Mateo	Millbrae Elementary	1,620,000	2,073	2,073	12,651,960	539,761	1,383,689	4,665,975
San Mateo	San Mateo County Community College	29,530,000	21,850 (6)	22,100 (6)	141,459,805 (7)	7,667,474	10,311,551	149,530,877
San Mateo	Woodside Elementary	1,315,000	425	425	4,513,183	1,102,155	870,477	-
Santa Barbara	Buellton Union Elementary	450,000	709	710	3,846,228	757,522	741,628	-
Santa Barbara	Carpinteria Unified	3,515,000	2,342	2,258	15,495,043	2,517,651	3,279,855	1,783,774
Santa Barbara	Cold Spring	400,000	189	189	2,526,034	556,572	464,680	-
Santa Barbara	Hope Elementary	935,000	949	906	6,771,897	952,599	923,425	-
Santa Barbara	Santa Ynez Valley Union High	1,265,000	1,043	1,043	9,646,086	33,753	298,791	-
Santa Clara	Campbell Union High	12,805,000	7,191	7,145	54,592,149	8,353,816	11,375,260	4,810,284
Santa Clara	(5) Cupertino Union	9,855,000	17,281	17,487	94,957,614	22,590,967	12,624,313	-
Santa Clara	(5) Franklin-McKinley	5,000,000	9,558	9,587	53,154,018	6,510,093	7,985,250	-
Santa Clara	Gilroy Unified	9,855,000	10,027	10,393	59,620,556	3,987,379	4,982,478	-
Santa Clara	Lakeside Joint	125,000	85	85	997,330	70,998	138,694	-
Santa Clara	Loma Prieta Joint Union Elementary	855,000	395	384	2,909,614	657,499	757,609	-
Santa Clara	Los Gatos-Saratoga Joint Union High	5,000,000	3,075	3,075	29,605,028	2,166,642	2,773,030	2,956,000
Santa Clara	Morgan Hill Unified	7,365,000	8,772	8,872	49,951,225	8,901,952	9,546,264	5,981,000
Santa Clara	(5) Mount Pleasant Elementary	2,685,000	2,854	2,767	15,715,215	1,257,766	4,690,042	15,125,000
Santa Clara	Palo Alto Unified	5,000,000	10,643	10,902	101,715,608	15,403,957	17,103,536	8,661,249

County	District	Principal Amount of Notes	Estimated FY 2008/09 ADA (1)	Projected FY 2009/10 ADA (1)	FY 2008/09 Total Revenue from Revenue Limit Sources (2)	FY 2008/09 Budgeted Ending General Fund Balance (2)	FY 2007/08 Actual Ending General Fund Balance (3)	Estimated OPEB (1)(4) Actuarial Accrued Liability
Shasta	Shasta County Office of Education	1,420,000	878	875	141,459,805	5,227,411	6,096,036	4,163,381
Shasta	Anderson Union High	495,000	1,791	1,750	11,928,584	3,422,817	4,843,864	1,481,674
Shasta	Bella Vista Elementary	335,000	413	413	2,241,606	657,031	792,462	96,364
Shasta (5)	Cascade Union Elementary	565,000	1,392	1,392	8,064,197	1,623,889	3,038,554	990,443
Shasta (5)	Cottonwood Union Elementary	425,000	1,079	1,060	6,169,827	1,203,334	1,451,057	1,212,861
Shasta (5)	Grant Elementary	325,000	595	595	3,270,316	349,989	565,196	-
Shasta (5)	Pacheco Union Elementary	695,000	592	572	3,583,975	714,688	850,261	270,867
Sonoma	Santa Rosa Elementary School District - Santa Rosa High	5,000,000	15,099	15,073	97,681,814	9,995,906	22,233,745	23,278,900
Sonoma (5)	West Sonoma County Union High	1,050,000	2,231	2,177	15,150,928	1,688,201	3,313,054	2,791,796
Sonoma	Bennett Valley Union	605,000	899	899	5,031,259	998,792	1,227,211	-
Sonoma	Horicon	120,000	86	86	1,157,403	308,260	285,114	-
Sonoma	Rincon Valley Union	4,335,000	2,771	2,771	14,823,343	2,355,052	3,213,886	2,531,455
Sonoma	Sonoma Valley Unified	5,000,000	4,162	4,094	26,183,066	1,005,814	5,593,533	2,300,500
Sonoma (5)	Cotati-Rohnert Park Unified	5,000,000	6,072	5,958	38,450,187	4,110,732	4,888,596	13,313,900
Sonoma	Windsor Unified	4,500,000	4,130	4,126	30,035,739	2,013,866	3,206,454	6,500,000
Stanislaus	Stanislaus Union Elementary	2,130,000	3,050	3,046	17,250,204	1,604,277	4,159,557	-
Trinity	Trinity County Board of Education	155,000	41	41	1,067,721	469,741	498,478	813,037
Tulare	Exeter Union Elementary	680,000	1,929	1,929	81,410,606	9,729,192	2,588,524	5,664,272
Tulare	Exeter Union High	655,000	1,109	1,109	7,281,607	1,420,737	1,177,566	4,212,467
Tulare	Pixley Union Elementary	335,000	896	896	4,939,959	2,344,942	2,198,526	1,702,056
Tulare	Terra Bella Union Elementary	425,000	880	880	4,663,390	839,446	1,603,673	-
Tulare	Woodlake Union	1,305,000	1,464	1,484	8,101,953	1,663,510	2,170,045	-
Tulare	Porterville Unified	5,960,000	12,570	12,420	79,182,407	8,033,428	16,904,871	62,848,817
Tuolumne (5)	Curtis Creek Elementary	440,000	570	550	3,330,938	482,843	549,684	-
Tuolumne	Sonora	1,075,000	736	731	4,098,224	444,716	626,131	-
Tuolumne	Sonora Union High	1,540,000	1,380	1,355	9,392,733	586,718	1,467,942	1,414,048
Tuolumne	Big Oak Flat-Groveland Unified	585,000	286	283	4,179,500	763,632	686,873	-
Ventura	Fillmore Unified	3,670,000	3,631	3,631	21,220,358	1,483,267	3,395,326	-
Ventura	Hueneme Elementary	2,510,000	7,823	7,823	43,476,945	3,978,643	8,235,109	19,002,100
Ventura (5)	Ojai Unified	1,890,000	2,936	2,835	17,565,241	1,003,145	2,304,874	7,560,968
Ventura	Oxnard Union High	2,145,000	15,193	15,193	102,382,411	17,750,989	24,534,486	187,339,000
Ventura	Pleasant Valley	3,755,000	6,385	6,385	34,745,879	1,599,394	5,592,201	17,736,136
Ventura	Rio Elementary	3,120,000	4,124	4,246	22,809,673	2,374,779	4,489,634	16,233,421
Ventura	Santa Paula Elementary	2,370,000	3,574	3,574	19,620,745	4,383,261	4,842,170	4,478,872
Ventura	Simi Valley Unified	6,035,000	19,816	19,537	116,871,194	8,649,437	22,169,535	8,950,578
Ventura	Ventura Unified	9,855,000	16,671	16,700	95,961,670	6,207,335	11,958,690	26,812,023
Ventura	Conejo Valley Unified	19,690,000	20,952	20,452	124,533,259	5,883,686	15,840,253	18,239,251
Ventura	Oak Park Unified	1,615,000	3,512	3,572	20,871,940	1,001,000	1,460,135	-
Ventura	Moorpark Unified	4,915,000	7,022	6,930	41,273,704	2,307,878	1,675,610	10,053,493
Yolo	Yolo County Board of Education	1,710,000	689	685	4,460,063	4,103,853	5,289,038	2,196,134
Yolo	Esparto Unified	575,000	995	995	5,995,899	678,309	2,106,540	-
Yolo	Winters Joint Unified	515,000	1,635	1,596	9,830,316	2,525,703	3,159,872	43,792
Yuba	Wheatland Union High	695,000	688	688	4,651,008	989,536	991,227	-
	Total: 149	531,205,000						

(1) Source: The participating districts.

(2) Source: 2008-09 Adopted Budget.

(3) Source: 2007-08 Audited Financial Statement.

(4) Other Post Employment Benefits (OPEB)

(5) Qualified as of 2008-09 first and second interim report.

(6) Full-Time Equivalent Students (FTES).

(7) Includes all budgeted State and Local revenue.

**APPENDIX C**

**PROPOSED FORM OF BOND COUNSEL OPINION**

July 6, 2009

California School Cash Reserve  
Program Authority  
5297 Maureen Lane  
Moorpark, California 93021

California School Cash Reserve Program Authority  
2009-2010 Senior Bonds, Series A  
and  
California School Cash Reserve Program Authority  
2009-2010 Subordinate Bonds, Series A  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California School Cash Reserve Program Authority (the "Authority") in connection with the issuance of its California School Cash Reserve Program Authority 2009-2010 Senior Bonds, Series A (the "Series A Senior Bonds"), in the aggregate principal amount of \$478,080,000, and its California School Cash Reserve Program Authority 2009-2010 Subordinate Bonds, Series A (the "Series A Subordinate Bonds" and together with the Series A Senior Bonds, the "Series A Bonds"), in the aggregate principal amount of \$53,125,000, issued pursuant to the Indenture, dated as of July 1, 2009 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the resolutions of the California school districts, community college districts and county boards of education (collectively, the "Districts") identified in Schedule I to the Indenture and, for a District that is not fiscally accountable, in certain cases, a corresponding resolution of the County Board of Supervisors of the County in which such District is located (collectively, the "Counties"), each such resolution (collectively, the "Note Resolutions") approving the issuance of the tax and revenue anticipation notes (the "Series A Notes") issued on the date hereof by or on behalf of such Districts and designated the respective District's "2009-2010 Tax and Revenue Anticipation Note, Series A," the Tax Certificate of the Authority, dated the date hereof (the "Tax Certificate"), certificates of the Authority, of the Districts ("the District Certificates") and of the Trustee, and opinions of counsel to the Trustee, the Districts and others, an opinion of Kutak Rock LLP, as special

counsel to the Districts, regarding the issuance of the Series A Notes by the Districts or Counties, as applicable, and the adoption, legality, validity and enforceability of the Note Resolutions, the Series A Notes and certain other matters, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Note Resolutions, the Indenture, the District Certificates and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series A Bonds, the Note Resolutions, the Series A Notes, the Indenture, the District Certificates and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts, community college districts, county boards of education, counties and joint powers authorities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture, the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Series A Notes or the Series A Bonds and express no opinion with respect thereto.

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

1. The Series A Bonds constitute the valid and binding special obligations of the Authority, payable from interest and principal payments made by the Districts on their respective Series A Notes.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding special obligation of, the Authority.

3. Interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest on the Series A Bonds and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Notice 94-84. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

(This page has been left blank intentionally.)

## **APPENDIX D**

### **THE BANK**

The following information relates to and has been furnished by the Bank for inclusion herein. No other party has independently verified or assumes any responsibility for such information, and each of the Authority, the Districts and the Underwriter cannot and do not make any representation as to the accuracy or completeness of such information or the absence of material adverse changes in such information subsequent to the date hereof. The delivery of this Official Statement does not create any implication that there has been no change in the affairs of the Bank since the date hereof or that the information contained or referred to in this section is correct as of any time subsequent to the date hereof.

#### **U. S. BANK NATIONAL ASSOCIATION**

U.S. Bank National Association (“USBNA”) is a national banking association organized under the laws of the United States and is the largest subsidiary of U.S. Bancorp. At March 31, 2009, USBNA reported total assets of \$259 billion, total deposits of \$175 billion and total shareholders’ equity of \$23 billion. The foregoing financial information regarding USBNA has been derived from and is qualified in its entirety by the unaudited financial information contained in the Federal Financial Institutions Examination Council report Form 031, Consolidated Report of Condition and Income for a Bank with Domestic and Foreign Offices (“Call Report”), for the quarter ended March 31, 2009. The publicly available portions of the quarterly Call Reports with respect to USBNA are on file with, and available upon request from, the FDIC, 550 17th Street, NW, Washington, D.C. 20429 or by calling the FDIC at (877) 275-3342. The FDIC also maintains an Internet website at [www.fdic.gov](http://www.fdic.gov) that contains reports and certain other information regarding depository institutions such as USBNA. Reports and other information about USBNA are available to the public at the offices of the Comptroller of the Currency at One Financial Place, Suite 2700, 440 South LaSalle Street, Chicago, IL 60605.

U.S. Bancorp is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports and other information with the Securities and Exchange Commission (the “SEC”). U.S. Bancorp is not guaranteeing the obligations of USBNA and is not otherwise liable for the obligations of USBNA.

Except for the contents of this section, USBNA and U.S. Bancorp assume no responsibility for the nature, contents, accuracy or completeness of the information set forth in this Official Statement.

(This page has been left blank intentionally.)



