

# PRELIMINARY OFFICIAL STATEMENT DATED JUNE 15, 2022

NEW ISSUE - FULL BOOK-ENTRY

INSURED RATING: S&P: "\_\_\_"  
UNDERLYING RATINGS: S&P: "\_\_\_"  
Moody's: "\_\_\_"  
KBRA: "\_\_\_"  
See "RATINGS" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds (as defined herein) is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

**\$40,000,000\***  
**ALUM ROCK UNION**  
**ELEMENTARY SCHOOL DISTRICT**  
(Santa Clara County, California)  
**General Obligation Bonds**  
**2016 Election, Series A**

**Dated: Date of Delivery**

**Due: As shown on inside front cover.**

**Authority and Purpose.** The captioned General Obligation Bonds, 2016 Election, Series A (the "Bonds") are being issued by the Alum Rock Union Elementary School District (the "District") of Santa Clara County (the "County"), California, pursuant to applicable provisions of the California Government Code and a resolution adopted by the Board of Trustees of the District on May 12, 2022. The Bonds were authorized at an election of the registered voters of the District held on June 7, 2016, which authorized the issuance of \$139,999,671.60 principal amount of general obligation bonds for the purpose of financing improvements to school facilities (the "2016 Bond Authorization"). The Bonds are being issued to finance certain school facility improvements, to prepay outstanding 2010 Certificates of Participation (as defined herein) and pay related costs of issuance. See "THE FINANCING PLAN" and "THE BONDS – Authority for Issuance" herein.

**Security.** The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied on taxable property within the District and collected by the County. The County Board of Supervisors is empowered and is obligated to annually levy *ad valorem* taxes for the payment by the District of principal of and interest on the Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates). The District has other series of general obligation bonds outstanding that are similarly secured by tax levies. See "SECURITY FOR THE BONDS."

**Book-Entry Only.** The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive physical certificates representing their interests in the Bonds. See "THE BONDS" and "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

**Payments.** The Bonds are dated the date of delivery and will accrue interest at the rates set forth on the inside cover page hereof, payable semiannually on each February 1 and August 1 until maturity, commencing August 1, 2021. Payments of principal of and interest on the Bonds will be made by U.S. Bank Trust Company, National Association, as the designated paying agent, registrar and transfer agent (the "Paying Agent"), to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS - Description of the Bonds."

**Redemption.** The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS – Optional Redemption" and "Mandatory Sinking Fund Redemption."

**Bond Insurance.** Concurrently with the issuance of the Bonds, \_\_\_\_\_ ("\_\_\_") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement. See "BOND INSURANCE" and "APPENDIX H."

**-LOGO OF BOND INSURER, IF ANY-**

## MATURITY SCHEDULE

(See inside cover)

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

The Bonds will be offered when, as and if issued and accepted by the Underwriter, subject to the approval as to legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, and subject to certain other conditions. Jones Hall is also serving as Disclosure Counsel to the District. \_\_\_\_\_, San Francisco, California, is serving as counsel to the Underwriter. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about July 6, 2022\*.

**-LOGO OF SELECTED UNDERWRITER-**

The date of this Official Statement is \_\_\_\_\_, 2022.

\*Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

## MATURITY SCHEDULE\*

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
(Santa Clara County, California)  
**General Obligation Bonds**  
**2016 Election, Series A**

Base CUSIP†: 022168

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP†</b>
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\*Preliminary; subject to change.

† CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by FactSet Research Systems Inc. Neither the District nor the Underwriter takes any responsibility for the accuracy of the CUSIP data.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
SANTA CLARA COUNTY  
STATE OF CALIFORNIA**

**BOARD OF TRUSTEES**

Andres Quintero, *President*  
Minh Pham, *Vice President*  
Corina Herrera-Loera, *Clerk*  
Ernesto Bejarano, *Member*  
Linda Chavez, *Member*

**DISTRICT ADMINISTRATIVE STAFF**

Hilaria Bauer, Ph.D., *Superintendent*  
Kolvira Chheng, *Assistant Superintendent of Business Services*

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**PROFESSIONAL SERVICES**

**MUNICIPAL ADVISOR**

Dale Scott & Company, Inc.  
*San Francisco, California*

**BOND COUNSEL AND DISCLOSURE COUNSEL**

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

**BOND REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

U.S. Bank Trust Company, National Association,  
*San Francisco, California*

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

**Involvement of Underwriter.** The Underwriter has provided the following statement for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter do not guarantee the accuracy or completeness of such information.

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

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

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

**Bond Insurance.** \_\_\_\_\_ ("\_\_\_\_\_" or the "Bond Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Bond Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer, supplied by the Bond Insurer and presented under the heading "BOND INSURANCE" and in APPENDIX H.

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

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

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# OFFICIAL STATEMENT

**\$40,000,000\***  
**ALUM ROCK UNION**  
**ELEMENTARY SCHOOL DISTRICT**  
(Santa Clara County, California)  
**General Obligation Bonds**  
**2016 Election, Series A**

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery of the captioned General Obligation Bonds, 2016 Election, Series A (the “**Bonds**”) by the Alum Rock Union Elementary School District (the “**District**”) of Santa Clara County (the “**County**”), State of California (the “**State**”).

## INTRODUCTION

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

**The District.** The District was established as a school district in 1930. The District boundaries consist of an area of approximately 11 square miles, mostly located in the eastern portion of the City of San José (the “**City**”), but also inclusive of certain unincorporated areas of the County. Currently, the District operates a total of twenty-two schools, consisting of the five sixth through eighth grade middle schools, thirteen transitional kindergarten through fifth grade schools, one transitional kindergarten through seventh grade school, two transitional kindergarten through eighth grade schools, and one transitional kindergarten through eighth grade dependent charter school. The District operates under a locally elected five-member Board of Trustees. The District’s fiscal year 2021-22 total assessed value is over \$10.9 billion. For more information regarding the District and its finances, see APPENDIX A and APPENDIX B hereto. See also APPENDIX C for demographic and other statistical information regarding the City and the County.

**Purposes.** The Bonds will be the first series of bonds issued pursuant to the authority of the District’s election held on June 7, 2016 (the “**Bond Election**”), which presented a bond measure to District voters known as “Measure I.” The net proceeds of the Bonds will be used to finance school facility improvement projects, to prepay outstanding 2010 Certificates of Participation, and to pay related costs of issuance. See “THE FINANCING PLAN” herein.

**Authority for Issuance of the Bonds.** The Bonds will be issued pursuant to the applicable provisions of the California Government Code and a resolution adopted by the Board of Trustees of the District on May 12, 2022 (the “**Bond Resolution**”). See “THE BONDS - Authority for Issuance” herein.

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*\*Preliminary; subject to change.*

**COVID-19 Statement.** The COVID-19 pandemic has resulted in a public health crisis that is fluid and unpredictable with financial and economic impacts that cannot be predicted. As such, investors are cautioned that the District cannot at this time predict the full impacts that the COVID-19 pandemic may have on its enrollment, average daily attendance, operations and finances, property values in the District, and general economic activity in the District, the State and the nation, among others. For more disclosure regarding the COVID-19 emergency, see “SECURITY FOR THE BONDS – Disclosure Relating to COVID-19” herein. See also references to COVID-19 in the sections herein entitled “PROPERTY TAXATION”, and in APPENDIX A under the heading “GENERAL DISTRICT INFORMATION” and “STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS.”

**Payment and Registration of the Bonds.** The Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See “THE BONDS” and “APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

**Security and Sources of Payment for the Bonds.** The Bonds are general obligation bonds of the District, payable by the District solely from *ad valorem* property taxes levied on taxable property located in the District and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* property taxes for the payment by the District of the principal of and interest on the Bonds upon all property subject to taxation by the District, without limitation of rate or amount (except with respect to certain personal property which is taxable at limited rates). See “SECURITY FOR THE BONDS.”

The District has other series of general obligation bonds outstanding that are payable from *ad valorem* property taxes levied on taxable property in the District. See “DEBT SERVICE SCHEDULES” and “DISTRICT FINANCIAL INFORMATION – Long-Term Indebtedness - General Obligation Bonds” in APPENDIX A.

The District can make no representation regarding the affect that the current COVID-19 outbreak may have on the assessed valuation of property within the District. See “SECURITY FOR THE BONDS – Disclosure Relating to COVID-19.”

**Redemption.** The Bonds are subject to redemption optional and mandatory sinking fund redemption prior to maturity as described herein. See “THE BONDS – Optional Redemption” and “– Mandatory Sinking Fund Redemption.”

**Bond Insurance.** Concurrently with the issuance of the Bonds, \_\_\_\_\_ (as defined herein) will issue its Municipal Bond Insurance Policy for the Bonds. The Municipal Bond Insurance Policy guarantees the scheduled payment of principal and interest represented by the Bonds when due, as set forth in the form of the Municipal Bond Insurance Policy included as an appendix to this Official Statement. See “BOND INSURANCE” and APPENDIX H attached hereto.

**Tax Matters.** Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes. See “TAX MATTERS” herein.



***District Management, Administration and Financial Management and Status and Other Matters.*** The District has been the subject of audits and reviews relating to certain financial matters including, among other reports and audits, a fiscal solvency analysis conducted by the Fiscal Crisis Management Assistance Team, with such events generally commencing in fiscal year 2016-2017. For current information on these matters, proceedings and actions taken by the District, see "CERTAIN LEGAL MATTERS" herein and Appendix A under the heading "DISTRICT FINANCIAL INFORMATION - District Budget and Interim Financial Reporting - Summary of Financial Oversight and related Reports and Investigations."

***Other Information.*** This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change. Copies of documents referred to in this Official Statement and information concerning the Bonds are available by request to the Office of the District Superintendent at Alum Rock Union Elementary School District, 2930 Gay Ave., San José, California 95127, Phone: (408) 928-6800. The District may impose a charge for copying, mailing and handling.

*[Remainder of Page Intentionally Left Blank]*

## THE FINANCING PLAN

As described herein, the net proceeds of the Bonds will be used to finance school facility improvements, to provide for the prepayment of outstanding 2010 Certificates of Participation (defined below), and to pay related costs of issuance.

Facilities Projects. The proceeds of the Bonds will be used to finance projects approved by the voters at the Bond Election, which authorized the issuance of \$139,999,671.60 principal amount of general obligation bonds for the purpose of financing the construction and improvement of school facilities, including prepayment of outstanding lease agreements, together with related costs of issuing the Bonds. The abbreviated form of Measure I is as follows:

*“To improve local neighborhood schools, fix leaky, deteriorated roofs, improve fire safety, repair/upgrade classrooms, improve student safety and security, renovate outdated restrooms, upgrade heating/ ventilation/ electrical systems for energy efficiency, and computer technology, shall \$139,999,671.60 of Alum Rock Union Elementary School District bonds approved by the voters in June 2008, be reapproved at legal rates to renovate, acquire, construct, repair classrooms, sites, facilities/equipment, with independent audits, citizens’ oversight, no money for administrators’ salaries and all money controlled locally?”*

As part of the ballot materials presented to District voters at the Bond Election, the voters authorized a specific list of projects (the **“Project List”**) eligible to be funded with proceeds of bonds sold pursuant to Measure I, including the Bonds described herein. The District makes no representation as to the specific application of the proceeds of the Bonds, the completion of any projects listed on the Project List, or whether bonds authorized by Measure I will provide sufficient funds to complete any particular project listed in the Project List. The Bonds will be the first series of general obligation bonds issued pursuant to Measure I.

Prepayment of 2010 Certificates of Participation. The District caused the delivery of Taxable Certificates of Participation, 2010 Series A (Direct Subsidy Qualified School Construction Bonds”) in the aggregate principal amount of \$25,000,000 (the **“2010 Certificates of Participation”**) on June 30, 2010 for the purpose of constructing school facilities in the District. The 2010 Certificates of Participation are subject to prepayment, on any date, upon at least 30 days’ notice to the owners thereof, and the principal amount thereof, plus accrued interest to the prepayment date. The District will apply a portion of the proceeds of the Bonds to prepay in full the outstanding 2010 Certificates of Participation, as summarized in the following table:

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Identification of Prepaid 2010 Certificates of Participation\*

Maturities Payable from Escrow (June 1)	Outstanding Principal Amount (July 15, 2022)	Interest Rate	Prepayment Date	Prepayment Price	CUSIP†
2026	\$11,375,000	5.470%	07/15/22	100.0%	022171AR3
Total:	\$11,375,000	--	--	--	--

† CUSIP Copyright American Bankers Association. CUSIP data herein is provided by Standard & Poor’s CUSIP Service Bureau, a division of McGraw Hill Companies, Inc. Neither the District nor the Underwriter is responsible for the accuracy of such data.

## **SOURCES AND USES OF FUNDS**

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

### **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Sources and Uses**

#### **Sources of Funds**

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Principal Amount of Bonds

Plus Net Original Issue Premium

#### **Total Sources**

#### **Uses of Funds**

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Deposit to Building Fund

Application to 2010 COP Prepayment

Deposit to Debt Service Fund

Costs of Issuance<sup>(1)</sup>

#### **Total Uses**

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*(1) Estimated costs of issuance include, but are not limited to, Underwriter's discount, printing costs, the premium for bond insurance, and fees of Bond Counsel, Disclosure Counsel, Municipal Advisor, the Paying Agent, and the rating agencies.*

See also "APPLICATION OF PROCEEDS OF THE BONDS" herein.

## THE BONDS

### Authority for Issuance

The Bonds will be issued pursuant to the authority of the Bond Election and Measure I and under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, commencing with Section 53506 of said Code, and the applicable Bond Resolution authorizing the issuance of the Bonds (the “**Bond Resolution**”).

### Description of the Bonds

The Bonds mature in the years and in the amounts and bear interest at the rates per annum all as set forth on the inside cover page hereof. Interest shall be computed based on a 360-day year of twelve 30-day months. The Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Bonds. See “Book-Entry Only System” below and “APPENDIX F – DTC and the Book-Entry Only System.”

The Bonds will be issued in the denomination of \$5,000 principal amount each or any integral multiple thereof. Interest on the Bonds is payable semiannually on each February 1 and August 1, commencing August 1, 2022 (each, an “**Interest Payment Date**”). Each Bond will bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is authenticated as of an Interest Payment Date, in which event it will bear interest from such date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the 15<sup>th</sup> calendar day of the month preceding the Interest Payment Date (each, a “**Record Date**”), in which event it will bear interest from such Interest Payment Date, or (iii) it is authenticated prior to July 15, 2022, in which event it will bear interest from the date of delivery thereof identified on the cover page. Notwithstanding the foregoing, if interest on any Bond is in default at the time of authentication thereof, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Payments of principal of and interest on the Bonds will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

See the maturity schedules on the inside cover page of this Official Statement and “DEBT SERVICE SCHEDULES” herein.

### Book-Entry Only System

The Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company (“**DTC**”). Purchasers of the Bonds (the “**Beneficial Owners**”) will not receive physical certificates representing their interest in the Bonds. Payments of principal of and interest on the Bonds will be paid by U.S. Bank Trust Company, National Association (the “**Paying Agent**”) to DTC for subsequent disbursement to DTC Participants which will remit such payments to the Beneficial Owners of the Bonds.

As long as DTC’s book-entry method is used for the Bonds, the Paying Agent will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the

prepayment of the Bonds called for prepayment or of any other action premised on such notice. See "APPENDIX F - DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The Paying Agent, the District, and the Underwriter of the Bonds have no responsibility or liability for payments made on account of beneficial ownership or any aspects of the records relating thereto, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Bonds.

### **Optional Redemption**

The Bonds maturing on or before August 1, 20\_\_ are not subject to redemption prior to maturity. The Bonds maturing on or after August 1, 20\_\_ are subject to redemption prior to maturity, at the option of the District, in whole or in part among maturities on such basis as shall be designated by the District and by lot within a maturity, from any available source of funds, on August 1, 20\_\_, or on any date thereafter, at a price equal to 100% of the principal amount thereof, without premium, together with accrued interest thereon to the redemption date.

Whenever less than all of the outstanding Bonds of any one maturity are designated for redemption, the Paying Agent will select the outstanding Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For the purpose of selection for optional redemption, Bonds will be deemed to consist of \$5,000 portions (principal amount), and any such portion may be separately redeemed. The Bonds may all be separately redeemed.

### **Mandatory Sinking Fund Redemption**

The Bonds maturing on August 1, 20\_\_, and August 1, 20\_\_ (the "**Term Bonds**"), are subject to mandatory sinking fund redemption on August 1 of each year in accordance with the schedules set forth below. The Term Bonds so called for mandatory sinking fund redemption will be redeemed in the sinking fund payments amounts and on the dates set forth below, without premium.

<b>Term Bonds Maturing August 1, 20__</b>	
<b>Redemption Date (August 1)</b>	<b>Sinking Fund Redemption</b>
<hr/>	

<b>Term Bonds Maturing August 1, 20__</b>	
<b>Redemption Date (August 1)</b>	<b>Sinking Fund Redemption</b>
<hr/>	

If any Term Bonds are redeemed pursuant to the optional redemption provisions described above, the total amount of all future sinking fund payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments on a pro rata basis in integral multiples of \$5,000 principal amount (or on such other basis as the District may determine) as set forth in written notice given by the District to the Paying Agent.

## **Notice of Redemption**

The Paying Agent will cause notice of any redemption to be mailed, first class mail, postage prepaid, at least 20 days but not more than 60 days prior to the date fixed for redemption, to the respective owners of any Bonds designated for redemption, at their addresses appearing on the registration books maintained by the Paying Agent. Such notice may be a conditional notice of redemption and subject to rescission as set forth below. Such notice shall state the redemption date and the redemption price and, if less than all of the then outstanding Bonds are to be called for redemption, shall designate the serial numbers of the Bonds to be redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, or by stating that all of the Bonds of one or more maturities have been called for redemption, and shall require that such Bonds be then surrendered at the office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

From and after the date fixed for redemption, if notice of such redemption has been duly given and funds available for the payment of the principal of and interest on the Bonds so called for redemption have been duly provided, the Bonds called for redemption will cease to be entitled to any benefit under the Bond Resolution other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in the notice.

## **Partial Redemption of Bonds**

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

## **Right to Rescind Notice of Optional Redemption**

The District has the right to rescind any notice of the optional redemption of Bonds by written notice to the Paying Agent on or prior to the date fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption. The District and the Paying Agent have no liability to the owners of the Bonds or any other party related to or arising from any such rescission of redemption. The Paying Agent will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent under the Bond Resolution.

## **Registration, Transfer and Exchange of Bonds**

If the book entry system is discontinued, the District will cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Bonds.

If the book entry system is discontinued, the person in whose name a Bond is registered on the Bond Register will be regarded as the absolute owner of that Bond. Payment of the principal of and interest on any Bond will be made only to or upon the order of that person; neither

the District, the County nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the Bond Resolution.

Bonds may be exchanged at the principal corporate trust office of the Paying Agent in Dallas, Texas (or at such other office as is designated by the Paying Agent) for a like aggregate principal amount of Bonds of authorized denominations and of the same maturity and series. Any Bond may, in accordance with its terms, but only if (i) the District determines to no longer maintain the book entry only status of the Bonds, (ii) DTC determines to discontinue providing such services and no successor securities depository is named or (iii) DTC requests the District to deliver Bond certificates to particular DTC Participants, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Resolution, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed.

No exchanges of Bonds shall be required to be made (a) fifteen days prior to an Interest Payment Date or the date established by the Paying Agent for selection of Bonds for redemption until the close of business on the Interest Payment Date or day on which the applicable notice of redemption is given or (b) with respect to a Bond after such Bond has been selected or called for redemption in whole or in part.

### **Defeasance**

The Bonds may be paid by the District, in whole or in part, in any one or more of the following ways:

- (a) by paying or causing to be paid the principal or redemption price of and interest on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Bond Resolution) to pay or redeem such Bonds; or
- (c) by delivering such Bonds to the Paying Agent for cancellation by it.

Whenever in the Bond Resolution it is provided or permitted that there be deposited with or held in trust by the Paying Agent money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may be held by the Paying Agent or by any other fiduciary. Such money or securities may include money or securities held by the Paying Agent in the funds and accounts established under the Bond Resolution and will be:

- (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice, the amount to be deposited or held will be the principal amount or redemption price of such Bonds and all unpaid interest thereon to the redemption date; or

- (ii) Federal Securities (not callable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the County and the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption is given as provided in the Bond Resolution or provision satisfactory to the Paying Agent is made for the giving of such notice.

Upon the deposit, in trust, at or before maturity, of money or Federal Securities in the necessary amount (as described above) to pay or redeem any outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption has been given as provided in the Bond Resolution or provision satisfactory to the Paying Agent has been made for the giving of such notice, then all liability of the District in respect of such Bond will cease and be completely discharged, except only that thereafter the owner thereof will be entitled only to payment of the principal of and interest on such Bond by the District, and the District will remain liable for such payment, but only out of such money or securities deposited with the Paying Agent for such payment.

As defined in the Bond Resolution, the term “**Federal Securities**” means (a) any direct general non-callable obligations of the United States of America, including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America; (b) any obligations the timely payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America or which are secured by obligations described in the preceding clause (a); (c) the interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form; and (d) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies: (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) participation certificates of the General Services Administration; (iv) Federal Financing Bank bonds and debentures; (v) guaranteed Title XI financings of the U.S. Maritime Administration; (vi) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development; and (vi) obligations of the Federal Home Loan Bank (FHLB).



## DEBT SERVICE SCHEDULES

The following tables show the annual debt service schedule with respect to the Bonds (assuming no optional redemptions).

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Bonds Debt Service Schedule

<b>Bond Year Ending August 1</b>	<b>Bonds Principal</b>	<b>Bonds Interest</b>	<b>Bonds Total Debt Service</b>
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
Total			

**Combined General Obligation Bonds Debt Service.** The District has other series of general obligation bonds and refunding bonds outstanding. The following table shows the combined debt service schedule with respect to the District's outstanding general obligation bonds and the Bonds, assuming no optional redemptions. See Appendix A under the heading "DISTRICT FINANCIAL INFORMATION – Long-Term Indebtedness" for additional information.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
Combined General Obligation Bonds Debt Service Schedule**

<b>Period Ending (Aug. 1)</b>	<b>Outstanding GO Bonds Annual Debt Service</b>	<b>Series A Bonds Annual Debt Service</b>	<b>Aggregate Annual Debt Service</b>
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
<b>TOTAL</b>			

## APPLICATION OF PROCEEDS OF THE BONDS

### Building Fund

Pursuant to the Bond Resolution, the net proceeds from the sale of the Bonds will be paid and credited to fund established and held by the Santa Clara County Treasurer (the “**County Treasurer**”) and designated as the “Alum Rock Union Elementary School District, 2016 Election, Series A Building Fund” (the “**Building Fund**”). Amounts credited to the Building Fund will be expended by the District for the purpose of financing any of the projects for which the Bond proceeds are authorized to be expended under the bond authorization, including the capital facility and technology projects described therein, and further including all incidental expenses and related costs of issuance. All interest and other gain arising from the investment of proceeds of the Bonds will be retained in the Building Fund and used for the purposes thereof. All moneys held in the Building Fund will be invested in accordance with the investment policies of the County, as such policies exist at the time of investment. Pursuant to the Bond Resolution and applicable provisions of the Education Code, a portion of the proceeds of the Bonds may be deposited with a fiscal agent for the purpose of paying costs of issuance. See also “APPENDIX G - SANTA CLARA COUNTY INVESTMENT POOL - INVESTMENT POLICY AND INVESTMENT REPORT” herein.

### Debt Service Fund

As further described herein under the heading “SECURITY FOR THE BONDS - Debt Service Funds,” the County will establish a debt service fund for the Bonds (the “**Debt Service Fund**”). Accrued interest and premium, if any, received by the County from the sale of the Bonds will be deposited in the Debt Service Fund. Said funds, together with the collections of *ad valorem* property taxes, will be used only for payment of principal of and interest on the Bonds. Interest earnings on the investment of monies held in the Debt Service Fund will be retained in the Debt Service Fund and used to pay the principal of and interest on the Bonds when due. Pursuant to the Bond Resolution, the District has pledged funds on deposit in the Debt Service Fund to the payment of the Bonds. Any moneys remaining in the Debt Service Fund after payment of the Bonds including the interest thereon have been paid, will be transferred to any other interest and sinking fund for general obligation bond indebtedness of the District, and in the event there is no such debt outstanding, will be transferred to the District’s general fund upon the order of the County Auditor, as provided in Section 15234 of the Education Code.

### Investment of Proceeds of Bonds

All moneys held in any of the funds or accounts established with the County under the Bond Resolution will be invested in Authorized Investments (as defined in the Bond Resolution) in accordance with the investment policies of the County, as such policies exist at the time of investment. Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account. All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Bond Resolution will be deposited in the fund or account from which such investment was made, and will be expended for the purposes thereof.

In accordance with Government Code Section 53600 *et seq.*, the County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in

accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. See “APPENDIX G - SANTA CLARA COUNTY INVESTMENT POOL-INVESTMENT POLICY AND INVESTMENT REPORT.”

## SECURITY FOR THE BONDS

### ***Ad Valorem Taxes***

***Bonds Payable from Ad Valorem Property Taxes.*** The Bonds are general obligations of the District, payable solely from *ad valorem* property taxes levied on taxable property in the District and collected by the County. The County is empowered and is obligated to annually levy *ad valorem* property taxes for the payment by the District of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation of rate or amount (except certain personal property which is taxable at limited rates).

***Other Bonds Payable from Ad Valorem Property Taxes.*** The District has a number of general obligation bond issues outstanding which are payable from *ad valorem* property taxes on a parity basis. In addition to the general obligation bonds issued by the District, there is other debt issued by entities with jurisdiction in the District, which is payable from *ad valorem* property taxes levied on parcels in the District. See “PROPERTY TAXATION – Tax Rates” and “- Direct and Overlapping Debt” below.

***Levy and Collection.*** The County will levy and collect such *ad valorem* property taxes in such amounts and at such times as is necessary to ensure the timely payment by the District of debt service. Such taxes, when collected, will be deposited into a debt service fund for the Bonds, which is maintained by the County and which is irrevocably pledged by the District for the payment by it of principal of and interest on the Bonds when due.

District property taxes are assessed and collected by the County in the same manner and at the same time, and in the same installments as other *ad valorem* taxes on real property, and will have the same priority, become delinquent at the same times and in the same proportionate amounts, and bear the same proportionate penalties and interest after delinquency, as do the other *ad valorem* taxes on real property.

***Statutory Lien on Ad Valorem Tax Revenues.*** Pursuant to Senate Bill 222 effective January 1, 2016, voter approved general obligation bonds which are secured by *ad valorem* tax collections, including the Bonds, are secured by a statutory lien on all revenues received pursuant to the levy and collection of the property tax imposed to service those bonds. Said lien attaches automatically and is valid and binding from the time the bonds are executed and delivered. The lien is enforceable against the District, its successors, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any further act.

***Annual Tax Rates.*** The amount of the annual *ad valorem* tax levied by the County for the District to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Bonds. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate.

Economic and other factors beyond the District's control, such as economic recession, deflation of property values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood, fire, outbreak of disease or other natural disaster or man-made disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate. See "PROPERTY TAXATION – Assessed Valuations – Factors Relating to Increases/Decreases in Assessed Value." See also below under the heading "--Disclosure Relating to COVID-19."

### **Debt Service Funds**

As previously described here (see "APPLICATION OF PROCEEDS OF THE BONDS – Debt Service Fund"), the County will establish the Debt Service Fund, into which will be deposited all taxes levied by the County for the payment by the District of the principal of and interest on the Bonds. The Debt Service Fund is pledged by the District for the payment by it of the principal of and interest and premium (if any) on the Bonds when and as the same become due. The County will transfer amounts in the Debt Service Fund to the Paying Agent to the extent necessary to enable the District to pay the principal of and interest and premium (if any) on the Bonds as the same becomes due and payable.

### **Not a County Obligation**

No part of any fund or account of the County is pledged or obligated to the payment of the Bonds. The Bonds are payable solely from the proceeds of an *ad valorem* property tax levied and collected by the County, for the payment by the District of principal of and interest on the Bonds. Although the County is obligated to collect the *ad valorem* property tax for the payment of the Bonds, the Bonds are not a debt (or a pledge of the full faith and credit) of the County.

### **Disclosure Relating to COVID-19**

**Background.** The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus ("COVID-19"), which was first detected in China and spread throughout the world, including the United States, was declared a pandemic by the World Health Organization, a national emergency by President Trump and a state of emergency by the Governor of the State (the "**Governor**") in March 2020. Since said declarations, tremendous volatility in the financial markets occurred, and nations have taken actions to curb the spread including stay at home orders and other actions which have unknown long-term impacts including on worldwide and local economies. As of this date, several vaccines have been provided approval, most on an emergency basis, by federal health authorities and are widely available.

**Federal Response.** President Trump's declaration of a national emergency on March 13, 2020 made available more than \$50 billion in federal resources to combat the spread of the virus. A multi-billion-dollar relief package was signed into law by President Trump on March 18, 2020, providing for Medicaid expansion, unemployment benefits and paid emergency leave during the crisis. In addition, the Federal Reserve lowered its benchmark interest rate to nearly zero, introduced a large bond-buying program and established emergency lending programs to banks and money market mutual funds.

On March 27, 2020, the United States Congress passed a \$2 trillion relief package, being the largest national stimulus bill in history, referred to as the Coronavirus Aid, Relief, and

Economic Security Act (the “**CARES Act**”). The package provided direct payments to taxpayers, jobless benefits, assistance to hospitals and healthcare systems, \$367 billion for loans to small businesses, a \$500 billion fund to assist distressed large businesses, including approximately \$30 billion for emergency grants to educational institutions and local educational agencies. This funding allocation included approximately \$13.5 billion in formula funding to make grants available to each state’s educational agency in order to facilitate K-12 schools’ responses to the COVID-19 pandemic.

On April 9, 2020, the Federal Reserve took actions aimed at providing up to \$2.3 trillion in loans to support the national economy, including supplying liquidity to participating financial institutions in the Small Business Administration’s (“**SBA**”) Paycheck Protection Program (“**PPP**”), purchasing up to \$600 billion in loans through the Main Street Lending Program and offering up to \$500 billion in lending to states and municipalities.

On April 24, 2020, an additional \$484 billion federal aid package was signed, providing additional funding for the PPP, the SBA disaster assistance loans and grant program, hospital grants and funding for a COVID-19 testing program.

On December 27, 2020, President Trump signed the Coronavirus Response and Relief Supplemental Appropriations Act (the “**CRRSA Act**”), an additional \$900 billion federal relief package intended to follow and expand on provisions of the CARES Act. The measure includes another round of direct stimulus payments to individuals and families, extended unemployment benefits, expanded the PPP, and provided approximately \$82 billion in supplemental aid to support the educational needs of states, school districts, and institutions of higher education, among other stimulus measures.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the “**ARP Act**”), a \$1.9 trillion economic stimulus plan that provided another round of stimulus checks to individuals and families, extended federal supplemental unemployment benefits, provided more funding for state and local governments, expanded subsidies for healthcare insurance, and provided additional funding for COVID-19 testing, vaccination, and treatment, among several other provisions that affect many industries, businesses, and individuals. With respect to relief for educational agencies, grants of \$125.8 billion are being provided to states to support statewide and local funding for elementary and secondary schools and public postsecondary institutions. Funding can be used for a number of education-related expenses, including inspecting and improving school facilities to ensure adequate air quality, providing mental health services, reducing class sizes, implementing social distancing guidelines, and purchasing personal protective equipment. At least 20% of the funding will have to be used to address learning loss, including through summer learning or enrichment, after-school programs, or extended-day or extended-year programs. States that receive the grants cannot reduce their spending levels on education as a proportion of their budgets during fiscal 2022 or 2023, compared with the average level from fiscal 2017 through 2019.

**State Response.** At the State level, on March 15, 2020, the Governor ordered the closing of California bars and nightclubs, the cancellation of gatherings of more than 250. On March 16, 2020, the State legislature passed \$1.1 billion in general purpose spending authority providing emergency funds to respond to the pandemic. On March 19, 2020, the Governor issued a state-wide blanket shelter-in-place order, ordering all California residents to stay home except for certain essential purposes. The restrictions initially began to be rolled back in May 2020 in accordance with State and local guidelines. Thereafter, on August 28, 2020, the Governor released a system entitled “Blueprint for a Safer California” (the “**State Blueprint**”) aimed at

reducing the spread of COVID-19. The State Blueprint placed the State's 58 counties into four color-coded tiers generally based on test positivity and adjusted case rate in the county. Each tier imposed restrictions on certain activities to reduce the spread. The tier system was ultimately terminated on June 15, 2021, following significant reductions in positivity and hospitalizations due to the availability of effective COVID-19 vaccines.

On February 23, 2021, the Governor signed legislation providing \$7.6 billion in State funding aimed at helping individuals and businesses that were not included in federal aid. It includes sending a \$600 rebate to low-income, disabled and undocumented persons when 2020 taxes are filed, \$2 billion in grants to help small business, \$35 million for food and diaper banks and \$400 million in subsidies for childcare providers. It also reverses cuts made last summer to public universities and State courts when the State had projected a record-breaking budget deficit.

Notwithstanding that several vaccines have been approved for public use with respect to COVID-19, the spread of COVID-19 and related variants is ongoing, and future actions to reduce its spread and its impact on global and local economies are uncertain and cannot be predicted. Additional information with respect to events surrounding the outbreak of COVID-19 and responses thereto can be found on State and local government websites, including but not limited to: the Governor's office (<http://www.gov.ca.gov>) and the California Department of Public Health (<https://covid19.ca.gov/>). *The District has not incorporated by reference the information on such websites, and the District does not assume any responsibility for the accuracy of the information on such websites.*

**Impact of COVID-19 Pandemic on Education.** The State's and other local (if any) shelter-in-place orders suspended in-person classroom instruction throughout schools in the State from March 2020 through the end of the 2019-20 academic year. School districts in the State generally commenced the 2020-21 academic year in accordance with the Governor's order of July 17, 2020 (Pandemic Plan for Learning and Safe Schools) and the State's Blueprint which resulted in significant amounts of distance learning as opposed to in-person instruction during the 2020-21 academic year. The 2021-22 academic year generally commenced with in-person learning with an independent study option.

On March 13, 2020, the Governor issued Executive Order N-26-20 which established a streamlined process for school closures in response to COVID-19, providing for continued State funding to support distance learning or independent study, subsidized school meals to low-income students, and continuing payment for school district employees, among other measures. In addition, Senate Bill 117 (March 17, 2020) was approved and addressed attendance issues and instructional hour requirements, among other items, and effectively held school districts harmless from funding losses that could result from these issues under the State's education funding formulas. See APPENDIX B under the heading "DISTRICT FINANCIAL INFORMATION – Education Funding Generally." In addition, federal funding to school districts was made available to most school districts under the CARES Act, the CRRSA Act and the ARP Act.

On December 30, 2020, the Governor announced the Safe Schools for All Plan ("**SSFA Plan**"), a plan aimed at incentivizing schools to offer in-person learning. Some portions of the SSFA Plan went into effect immediately, however on March 4, 2021 the legislature passed and on March 5, 2021 the Governor signed Senate and Assembly Bill 86, reaching an agreement on a school reopening plan, with the stated intent that schools offer in-person instruction to the greatest extent possible during the 2020-21 fiscal year. The plan provided schools with financial incentives totaling \$2 billion to offer in-person instruction beginning on April 1 to students with extra needs or requiring special attention and, for students in some grades, depending on what

tier their county was in under the State Blueprint. Funding was allocated based on LCFF funding. For districts not offering in-person instruction by April 1, 2021, funds decreased by one percent for each instructional day that schools were not open through May 15 (not including scheduled vacation days) and after May 15, eligibility ceased. Funds obtained were primarily to be spent on purposes consistent with providing in-person instruction, including COVID-19 testing, cleaning, personal protective equipment, facility needs, staffing costs, and social and mental health supports provided in conjunction with in-person instruction. Districts were required to continue to offer distance learning options.

The State's fiscal year 2021-22 Budget passed by the Legislature on June 14, 2021 together with related legislation approved on June 28, 2021, and signed by the Governor, makes historic levels of funding available for educational purposes, including funding the expansion of transitional kindergarten, funding of community wellness and student health hubs on campuses, expanded learning programs and increased special education funding, among others. See APPENDIX A under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

Information on the District's response to the COVID-19 pandemic can be found in Appendix A under the heading "DISTRICT GENERAL INFORMATION – District's Response to COVID-19 Pandemic."

***Impacts of COVID-19 Pandemic on Global and Local Economies Cannot be Predicted; Potential Declines in State and Local Revenues.*** The COVID-19 public health emergency altered the behavior of businesses and people in a manner that may have negative impacts on global and local economies, including the economy of the State. A substantial increase in unemployment and a decline in State revenues including derived from personal income tax receipts have occurred. The District cannot predict the short or long term impacts the COVID-19 emergency and the responses of federal, State or local governments thereto, will have on global, State-wide and local economies, which could impact District operations and finances, and local property values. For more detail regarding the State's current budget, and related reports and outlooks, see APPENDIX A under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS."

***General Obligation Bonds Secured by Ad Valorem Property Tax Revenues.*** Notwithstanding the impacts the COVID-19 pandemic may have on the economy in the State, the County and the District or on the District's general purpose revenues, the Bonds described herein are voter-approved general obligations of the District payable solely from the levy and collection of *ad valorem* property taxes, unlimited as to rate or amount, levied in the District and are not payable from the general fund of the District. The District cannot predict the impacts that the COVID-19 pandemic might have on local property values or tax collections. See "SECURITY FOR THE BONDS – *Ad Valorem* Taxes" and "PROPERTY TAXATION – Teeter Plan; Property Tax Collections" herein.



## PROPERTY TAXATION

### Property Tax Collection Procedures

Generally. In California, property which is subject to *ad valorem* taxes is classified as “secured” or “unsecured.” The “secured roll” is that part of the assessment roll containing (1) state assessed public utilities’ property and (2) property the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the county in which the property is located.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, Senate Bill 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, Senate Bill 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) 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; (3) 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 (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Disclaimer Regarding Property Tax Collection Procedures. The property tax collection procedures described above are subject to amendment based on legislation or executive order which may be enacted by the State legislature or declared by the Governor from time to time. The District cannot predict whether future amendments or orders will occur, and what impact, if

any, said future amendments or orders could have on the procedures relating to the levy and collection of property taxes, and related interest and penalties.

### **Taxation of State-Assessed Utility Property**

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization (“**SBE**”) and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as “unitary property,” a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and “operating nonunitary” property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

### **Assessed Valuation**

**Assessed Valuation History.** The table below shows a recent history of the District’s assessed valuation as of the date the equalized assessment tax roll is established in August of each year, excluding any exemptions granted after such date in each year.

#### **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Assessed Valuations Fiscal Year 2011-12 through Fiscal Year 2021-22**

<b>Fiscal Year</b>	<b>Local Secured</b>	<b>Unsecured</b>	<b>Total</b>	<b>Percent Change</b>
2011-12	\$5,938,849,340	\$169,521,831	\$6,108,371,171	--
2012-13	6,031,161,565	126,808,373	6,157,969,938	0.81%
2013-14	6,568,174,720	130,903,138	6,699,077,858	8.79
2014-15	7,108,095,672	128,700,834	7,236,796,506	8.03
2015-16	7,462,468,840	117,294,308	7,579,763,148	4.74
2016-17	8,105,687,639	143,025,668	8,248,713,307	8.83
2017-18	8,602,960,315	137,420,180	8,740,380,495	6.0
2018-19	9,260,917,063	133,239,137	9,394,156,200	7.5
2019-20	10,204,890,007	130,612,770	10,335,502,777	10.0
2020-21	10,352,594,298	133,830,710	10,486,425,008	1.5
2021-22	10,822,538,742	131,292,730	10,953,831,472	4.5

*Source: California Municipal Statistics, Inc.*

**Factors Relating to Increases/Decreases in Assessed Value.** Economic Conditions; Disasters. As indicated in the previous table, assessed valuations are subject to change in each year. Increases or decreases in assessed valuation result from a variety of factors including but not limited to general economic conditions, supply and demand for real property in the area, government regulations such as zoning, and man-made or natural disasters such as earthquakes, fires, floods and drought. Seismic activity is also a risk in the region where the District is located.

The State has experienced drought conditions in recent years, including a period of drought followed by record-level precipitation in late 2016 and early 2017 which resulted in related severe flooding and mudslides in certain regions. As of April 28, 2022, the U.S. Drought Monitor

indicates that the State is classified as experiencing mostly severe to extreme drought conditions, with the County primarily in the severe drought category. During 2021, Governor Newsom proclaimed a drought state of emergency for all counties in the State, culminating with his October 19, 2021 proclamation, urging Californians to step up their water conservation efforts. In January 2022, the State Water Board adopted emergency regulations aimed at saving water and raising drought awareness, with prohibitions focused on reducing outdoor water use, enforceable by local agencies and the State Water Board, generally with warning letters, mandatory water use audits, and fines. Local agencies can impose and enforce their own drought conservation rules.

In addition, the State has had several severe wildfires in recent years, which have burned thousands of acres and destroyed thousands of homes and structures. Several of the wildfires in recent years have originated in wildlands adjacent to urban areas.

Global Pandemic/Disease. Currently the world is experiencing a global pandemic as a result of the outbreak of COVID-19 which has resulted in an economic recession that could cause general marked declines in property values. For disclosure relating to the COVID-19 pandemic, see also "SECURITY FOR THE BONDS – Disclosure Relating to COVID-19 Global Pandemic."

Future Conditions Unknown. The District cannot predict or make any representations regarding the effects that prolonged droughts or wildfires or any other type of natural or manmade disasters, including the COVID-19 pandemic, and related conditions have or may have on the value of taxable property within the District, or to what extent the effects said disasters might have on economic activity in the District or throughout the State.

***Assessed Valuation by Jurisdiction.*** The table below shows the assessed value of property within the District, based on jurisdiction.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**Assessed Valuation by Jurisdiction**  
**Fiscal Year 2021-22**

<u>Jurisdiction:</u>	<u>Assessed Valuation in School District</u>	<u>% of School District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in School District</u>
City of San Jose	\$ 8,464,966,579	77.28%	\$215,306,753,933	3.93%
Unincorporated Santa Clara Cty	2,488,864,893	22.72	\$20,482,344,953	12.15%
Total District	\$10,953,831,472	100.00%		
 Santa Clara County	 \$10,953,831,472	 100.00%	 \$576,319,542,323	 1.90%

Source: California Municipal Statistics, Inc.

**Assessed Valuation by Land Use.** The table below shows the land use of property within the District, as measured by assessed valuation and the number of parcels.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**Assessed Valuation and Parcels by Land Use**  
**Fiscal Year 2021-22**

	<b>2021-22</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>
<b>Non-Residential:</b>	<b>Assessed Valuation(1)</b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>
Rural	\$ 58,271,670	0.54%	183	0.83%
Commercial/Office	835,637,785	7.72	474	2.15
Industrial	122,983,540	1.14	31	0.14
Recreational	5,179,497	0.05	11	0.05
Institutional/Social/Public	342,597,551	3.17	318	1.44
Miscellaneous/Water Utilities	71,477,800	0.66	44	0.20
Subtotal Non-Residential	\$1,436,147,843	13.27%	1,061	4.81%
<b>Residential:</b>				
Single Family Residence	\$7,144,897,226	66.02%	16,524	74.87%
Condominium/Townhouse	1,362,129,561	12.59	3,215	14.57
Mobile Home	5,930,732	0.05	132	0.60
2-4 Residential Units	301,173,553	2.78	681	3.09
5+ Residential Units	516,234,757	4.77	189	0.86
Subtotal Residential	\$9,330,365,829	86.21%	20,741	93.98%
Vacant Parcels	\$56,025,070	0.52%	267	1.21%
Total	\$10,822,538,742	100.00%	22,069	100.00%

(1) Local secured assessed valuation; excluding tax-exempt property.  
Source: California Municipal Statistics, Inc.

**Assessed Valuation of Single-Family Residential Parcels.** The table below shows the breakdown of the assessed valuations of improved single-family residential parcels in the District, including the median and average assessed value per parcel.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
Per Parcel 2021-22 Assessed Valuation of Single Family Homes**

	<u>No. of Parcels</u>	<u>2021-22 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential	16,524	\$7,144,897,226	\$432,395	\$381,105

  

<u>2021-22 Assessed Valuation</u>	<u>No. of Parcels (1)</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	481	2.911%	2.911%	\$ 21,570,001	0.302%	0.302%
\$50,000 - \$99,999	1,479	8.951	11.862	98,685,865	1.381	1.683
\$100,000 - \$149,999	798	4.829	16.691	100,344,415	1.404	3.088
\$150,000 - \$199,999	906	5.483	22.174	157,228,357	2.201	5.288
\$200,000 - \$249,999	968	5.858	28.032	217,953,898	3.050	8.339
\$250,000 - \$299,999	1,394	8.436	36.468	385,906,745	5.401	13.740
\$300,000 - \$349,999	1,376	8.327	44.795	447,606,595	6.265	20.004
\$350,000 - \$399,999	1,314	7.952	52.748	491,967,757	6.886	26.890
\$400,000 - \$449,999	1,028	6.221	58.969	436,753,863	6.113	33.003
\$450,000 - \$499,999	889	5.380	64.349	421,982,019	5.906	38.909
\$500,000 - \$549,999	905	5.477	69.826	475,466,671	6.655	45.564
\$550,000 - \$599,999	812	4.914	74.740	466,762,603	6.533	52.096
\$600,000 - \$649,999	708	4.285	79.024	441,418,023	6.178	58.274
\$650,000 - \$699,999	727	4.400	83.424	490,443,491	6.864	65.139
\$700,000 - \$749,999	623	3.770	87.194	451,226,236	6.315	71.454
\$750,000 - \$799,999	531	3.214	90.408	410,165,305	5.741	77.195
\$800,000 - \$849,999	412	2.493	92.901	339,531,774	4.752	81.947
\$850,000 - \$899,999	265	1.604	94.505	231,273,535	3.237	85.184
\$900,000 - \$949,999	195	1.180	95.685	179,954,317	2.519	87.702
\$950,000 - \$999,999	140	0.847	96.532	136,351,379	1.908	89.611
\$1,000,000 and greater	573	3.468	100.000	742,304,377	10.389	100.000
	16,524	100.000%		\$7,144,897,226	100.000%	

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

## Reassessments and Appeals of Assessed Value

Reassessment or appeals of assessed values could adversely impact property tax revenues within the District.

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

Under California law, property owners may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as

residential home prices) cause the property to be worth less than its current assessed value. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

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

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

The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers or blanket reassessments initiated by the County Assessor. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Bonds to increase accordingly, so that the fixed debt service on the Bonds (and other outstanding general obligation bonds) may be paid.

## Tax Rates

The table below summarizes the total *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 17-007 (a typical tax rate area in the District) for recent fiscal years. The 2021-22 assessed valuation of TRA 17-007 is \$3,787,120,466, which is 34.57% of the District's total assessed valuation.

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Typical Total Tax Rates per \$100 of Assessed Valuation (TRA 10-007)

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
General	1.00000	1.00000	1.00000	1.00000	1.00000	1.00000
County Retirement Levy	.03880	.03880	.03880	.03880	.03880	.03880
Santa Clara County Hospital and Housing Bonds	.00860	.02086	.01770	.01690	.00690	.01876
San Jose-Evergreen Community College	.02310	.04000	.03830	.01990	.03570	.03220
Eastside Union High School District	.07920	.10340	.10170	.09860	.10050	.09950
<b>Alum Rock Union School District</b>	<b>.09230</b>	<b>.09540</b>	<b>.06730</b>	<b>.07040</b>	<b>.07450</b>	<b>.06310</b>
City of San Jose	.02070	.01860	.01700	.02260	.01750	.02070
Total Tax Rate	1.26270	1.31706	1.28080	1.26720	1.27390	1.27306
Santa Clara Valley Water District						
State Water Project	.00860	.00620	.00420	.00410	.00370	.00510
Total Land and Improvement	.00860	.00620	.00420	.00410	.00370	.00510

Source: California Municipal Statistics, Inc.

## Teeter Plan; Property Tax Collections

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “**Teeter Plan**”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The District participates in the Teeter Plan, and thus receives 100% of secured property taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes. Currently, the County includes general obligation bond levies, including for general obligation bonds issued by the District, in its Teeter Plan.

So long as the Teeter Plan remains in effect and the County continues to include the District in the Teeter Plan, the District’s receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors of the County could, under certain circumstances, terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors of the County could terminate the Teeter Plan with respect to the District if the delinquency rate for all *ad valorem* property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated in the County with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes within the County and delinquency rates experienced with respect to the parcels within the District. With respect to general obligation bonds, county assessors are authorized to levy taxes sufficient to pay debt service on bonds coming due, including at a rate that will provide for a reserve in the event of delinquencies. The District cannot represent the sufficiency of any such reserve to the extent necessary to cover delinquent taxes, to the extent the Teeter Plan were amended or discontinued.

The District cannot provide any assurances that the County will continue to maintain the Teeter Plan described above, or will have sufficient funds available to distribute the full amount of the District’s share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District’s or the County’s control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or depression could be caused by many factors outside the control of the District, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of the spread of COVID-19 or other outbreak of disease or natural or manmade disaster. See “SECURITY FOR THE BONDS – Disclosure Relating to COVID-19 Pandemic.”

Furthermore, the District cannot predict the impact, if any, that changes or modifications to property tax collection procedures might have on the County’s Teeter Plan. See “PROPERTY TAXATION – Property Tax Collection Procedures” herein.

Notwithstanding the District's participation in the Teeter Plan, below is a summary of recent secured tax charges and delinquencies in the District.

**ALUM ROCK UNION HIGH SCHOOL DISTRICT  
Secured Tax Charges and Delinquencies  
Fiscal Years 2008-09 through 2020-21**

	<b>Secured Tax Charge (1)</b>	<b>Amt. Del. June 30</b>	<b>% Del. June 30</b>
2016-17	\$7,387,436.58	\$68,473.46	0.93%
2017-18	8,120,834.72	68,335.58	0.84
2018-19	6,166,220.51	53,749.09	0.87
2019-20	6,867,271.37	64,985.06	0.95
2020-21	7,650,993.65	84,572.71	1.11

(1) Debt Service Levy only.

Source: *California Municipal Statistics, Inc.*



## Major Taxpayers

The following table shows the 20 largest owners of secured taxable property in the District as determined by secured assessed valuation.

The more property (by assessed value) which is owned by a single taxpayer in the District, the greater the amount of tax collections that are exposed to weaknesses in the taxpayer's financial situation and ability or willingness to pay property taxes. Each taxpayer listed below is a unique name listed on the tax rolls. The District cannot determine from County assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below.

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Top Twenty Secured Property Taxpayers Fiscal Year 2021-22

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2021-22 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	San Jose Health Care System LP	Hospital	\$293,724,879	2.71%
2.	Stockbridge Newbury Park LLC	Apartments	104,916,382	0.97
3.	Capitol Square Partners	Shopping Center	61,749,406	0.57
4.	San Jose Water Works	Water Company	58,198,684	0.54
5.	Home Depot USA Inc.	Commercial	54,391,294	0.50
6.	PDSJ, LLC	Shopping Center	39,518,463	0.37
7.	Prime Toyon Housing Partners LP	Apartments	33,535,579	0.31
8.	FAE Target Acquisition LLC	Commercial	29,230,840	0.27
9.	Country Club Villa Properties	Apartments	28,994,524	0.27
10.	Boxers Mayfair Village	Apartments	25,901,584	0.24
11.	Life Storage LP	Industrial	22,102,752	0.20
12.	Westcore Alpha Dobbin LLC	Industrial	20,762,898	0.19
13.	La Buona Vita MHC LP	Apartments	20,207,199	0.19
14.	Hercules Holding II LLC	Office Building	19,965,499	0.18
15.	180 N. Jackson Avenue LLC	Hospital	19,904,356	0.18
16.	Caprock Homes LLC	Apartments	16,446,696	0.15
17.	Save Mart Portfolio Owner Fund V CA LLC	Shopping Center	15,000,000	0.14
18.	Mt. Pleasant Shopping Center LP	Shopping Center	13,909,341	0.13
19.	Emerald Glen S J LLC	Apartments	12,973,433	0.12
20.	Dons Investment & Development Inc.	Shopping Center	12,953,579	0.12
			<u>\$904,387,388</u>	<u>8.36%</u>

(1) 2021-22 local secured assessed valuation: \$10,822,538,742.

Source: California Municipal Statistics, Inc.

## Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the “**Debt Report**”) prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Statement of Direct and Overlapping Bonded Debt Dated as of April 1, 2022

2021-22 Assessed Valuation: \$10,953,831,472

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/22</u>
Santa Clara County	1.901%	\$ 21,794,205
San Jose-Evergreen Community College District	6.089	50,785,889
East Side Union High School District	11.579	105,100,909
<b>Alum Rock Union School District</b>	<b>100.000</b>	<b>90,225,000(1)</b>
City of San Jose	3.932	22,888,565
Santa Clara Valley Water District Benefit Assessment District	1.901	915,332
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$291,709,900</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Clara County General Fund Obligations	1.901%	\$23,611,644
Santa Clara County Pension Obligation Bonds	1.901	6,380,487
Santa Clara County Board of Education Certificates of Participation	1.901	34,598
San Jose-Evergreen Community College District Benefit Obligations	6.089	2,889,231
East Side Union High School District Benefit Obligation Bonds	11.579	2,982,750
<b>Alum Rock Union School District Certificates of Participation</b>	<b>100.000</b>	<b>13,650,000</b>
City of San Jose General Fund Obligations	3.932	22,086,634
Santa Clara County Vector Control District Certificates of Participation	1.901	33,553
<b>TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$71,668,897</b>
Less: Santa Clara County supported obligations		343,677
<b>TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$71,325,220</b>
 GROSS COMBINED TOTAL DEBT		 \$363,378,797 (2)
NET COMBINED TOTAL DEBT		\$363,035,120

Ratios to 2021-22 Assessed Valuation:

<b>Direct Debt (\$90,225,000)</b> .....	<b>0.82%</b>
<b>Combined Direct Debt (\$103,875,000)</b> .....	<b>0.95%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	2.66%
Gross Combined Total Debt .....	3.32%
Net Combined Total Debt .....	3.31%

(1) Excludes the Bonds.

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

Source: California Municipal Statistics, Inc.

## BOND INSURANCE

*The following information has been furnished by the Bond Insurer for use in this Official Statement. No representation is made as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date hereof. Reference is made to APPENDIX H for a specimen of the Policy.*

[IF A BOND INSURANCE POLICY IS OBTAINED TO GUARANTEE THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS, THEN THE BOND INSURER'S STANDARD INVESTOR DISCLOSURE WILL BE INCLUDED HERE]

## TAX MATTERS

### Tax Exemption

**Federal Tax Status.** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

**Tax Treatment of Original Issue Discount and Premium – Bonds.** If the initial offering price to the public at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium are disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this

section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

***California Tax Status.*** In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

### **Other Tax Considerations**

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to bonds issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Bonds, or as to the consequences of owning or receiving interest on the Bonds, as of any future date. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

## **Form of Opinion**

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix D.

## **CERTAIN LEGAL MATTERS**

*[THIS SECTION IS SUBJECT TO FURTHER UPDATING AND CHANGE BASED ON CONTINUING DUE DILIGENCE REVIEWS AND CONSULT WITH DISTRICT COUNSEL]*

### **Investigations, Audits, Litigation and Related Matters**

Absence of Pending or Threatened Litigation Relating to the Bonds. No litigation is pending or threatened, nor is any audit or investigation premised on any assertion, concerning or contesting the validity of the Bonds or the District's ability to receive *ad valorem* property taxes and to collect other revenues, or contesting the District's ability to issue and retire the Bonds. The District is not aware of any litigation pending or threatened, nor is any audit or investigation premised on any assertion, questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Bonds or District officials who will sign certifications relating to the Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Underwriter (defined herein) at the time of the original delivery of the Bonds.

Absence of Material Litigation. The District is subject to lawsuits and claims that arise in the regular course of operating a public school district. In the opinion of the District, the aggregate amount of uninsured liabilities of the District under existing lawsuits and claims will not materially affect the financial position or operations of the District. The District maintains property and liability coverage and workers' compensation coverage. For more information on the District's insurance coverages, see Appendix A under the heading "DISTRICT GENERAL INFORMATION - Risk Management "

*[If there are material pending lawsuits, evaluate to determine if the exposure is within the District's insurance policy limits and evaluate appropriate disclosures relating to impacts on District's finances, if any].*

For information regarding audits and recommendations in recent years regarding the District's fiscal independent status and related matters, see Appendix A hereto under the heading "DISTRICT FINANCIAL INFORMATION - District Budget and Interim Financial Reporting."

## Legality for Investment

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

## Compensation of Certain Professionals

Payment of the fees and expenses of Jones Hall, A Professional Law Corporation, San Francisco, California as Bond Counsel and Disclosure Counsel to the District, \_\_\_\_\_, \_\_\_\_\_, California, as Underwriter's Counsel, and Dale Scott & Company, Inc., as Municipal Advisor to the District, is contingent upon issuance of the Bonds.

## CONTINUING DISCLOSURE

The District will execute a Continuing Disclosure Certificate in connection with the issuance of the Bonds in the form attached hereto as APPENDIX E. The District has covenanted therein, for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an “**Annual Report**”) not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2023 with the report for the 2021-22 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. Such notices will be filed by the District with the Municipal Securities Rulemaking Board (the “**MSRB**”). The specific nature of the information to be contained in an Annual Report or the notices of enumerated events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5) (the “**Rule**”).

The District has existing disclosure undertakings that have been made pursuant to the Rule in connection with the issuance of the District's outstanding general obligation bonds and other indebtedness (see information in APPENDIX B under the heading “DISTRICT FINANCIAL INFORMATION – Long-Term Indebtedness”). In the previous five years, specific instances of non-compliance with prior undertakings (if any) are \_\_\_\_\_.

In order to assist in future timely compliance with its disclosure undertakings for its outstanding obligations and the Bonds, the District has contracted with Dale Scott & Company, Inc. to serve as dissemination agent for the Bonds and the outstanding obligations of the District.

Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure.

## RATINGS

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("**S&P**") has assigned a rating of "\_\_\_\_" to the Insured Bonds, on the understanding that the Bond Insurer will deliver its municipal bond insurance policy with respect to the Insured Bonds. S&P has also assigned an underlying rating of "\_\_\_\_" to the Bonds. Moody's Investors Service, Inc. ("**Moody's**") has assigned a rating of "\_\_\_\_" to the Bonds. Kroll Bond Rating Agency, LLC ("**KBRA**") has assigned a rating of "\_\_\_\_" to the Bonds.

Such ratings reflect only the views of the respective ratings agencies and an explanation of the significance of such ratings may be obtained only from the applicable agency. The District has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement because it is not material for purposes of making an investment decision). There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

## UNDERWRITING

The Bonds are being purchased by \_\_\_\_\_ (the "**Underwriter**"). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ which is equal to the initial principal amount of the Bonds of \$\_\_\_\_\_, plus net original issue premium of \$\_\_\_\_\_, less an Underwriter's discount of \$\_\_\_\_\_.

The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds (if any are purchased) and provides that the Underwriter's obligation to purchase is subject to certain terms and conditions, including the approval of certain legal matters by counsel.

The Underwriter may offer and sell Bonds to certain securities dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed by the Underwriter.

## ADDITIONAL INFORMATION

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

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

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

## **EXECUTION**

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

**ALUM ROCK UNION ELEMENTARY SCHOOL  
DISTRICT**

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



## APPENDIX A

### GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

*The information in this and other sections concerning Alum Rock Union Elementary School District (the “**District**”) operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of and interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof by the District. See “SECURITY FOR THE BONDS” in the front half of the Official Statement.*

### DISTRICT GENERAL INFORMATION

#### General Information

The District was established as a school district in 1930. The District boundaries consist of an area of approximately 11 square miles, mostly located in the eastern portion of the City of San José (the “City”), but also inclusive of certain unincorporated areas of the County. Currently, the District operates a total of twenty-two schools, consisting of the five sixth through eighth grade middle schools, thirteen transitional kindergarten through fifth grade schools, one transitional kindergarten through seventh grade school, two transitional kindergarten through eighth grade schools, and one transitional kindergarten through eighth grade dependent charter school. The District operates under a locally elected five-member Board of Trustees. The District’s fiscal year 2021-22 total assessed value is over \$10.9 billion. For the District’s most recent audited financial statement, see APPENDIX B hereto. See also APPENDIX C for demographic and other statistical information regarding the City and the County.

In addition to the District’s dependent charter school known as Aptitude Community Academy, the District has also sponsored charters for three independent charter schools, being KIPP Heartwood, Alpha Blanca Alvarado, and KIPP Prize.

#### Administration

**Board of Trustees.** The District is governed by a five-member Board of Trustees, with each member elected to a four-year term. Elections for positions to the Board of Trustees are at-large and held every two years. The Board of Trustees is charged with the responsibility for the general policy and direction of education in the District based on State of California and Federal Constitutions and laws, and State Board of Education rules and regulations. The Board of Trustees acts as a committee of the whole for all matters concerning the District. All actions taken by the Board of Trustees are done in an appropriately noticed public meeting.

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

**BOARD OF TRUSTEES**  
**Alum Rock Union Elementary School District**

<b><u>Name</u></b>	<b><u>Office</u></b>	<b><u>Term Expires*</u></b>
Andres Quintero	President	November 2022
Minh Pham	Vice President	November 2022
Corina Herrera-Loera	Clerk	November 2024
Ernesto Bejarano	Member	November 2022
Linda Chavez	Member	November 2022

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\*Four Board members have terms expiring in November 2022 because a board member elected in November 2020 declined to assume the position on the Board. Thereafter, Trustee Pham was appointed to the Board in January 2021 for a term ending in November 2022.

***Superintendent and Administrative Personnel.*** The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. The following is information regarding certain District officials.

***Hilaria Bauer, Ph.D., Superintendent.*** Hilaria Bauer, Ph.D., was appointed Superintendent of the Alum Rock Union Elementary School District in June 2014, returning to the District where she had previously served for ten years earlier in her illustrious career in education. Prior to rejoining the District as Superintendent, Dr. Bauer served for three years as Director of Curriculum and Instruction for the Morgan Hill School District. Before joining the Morgan Hill School District, Dr. Bauer served in a variety of administrative roles in the District, first as the Principal of Clyde Fischer Middle School before going on to serve as the District's Director of Curriculum and Instruction and, later, as its Academic Achievement Officer. Dr. Bauer earned a Bachelor's degree from Saint Mary's University, a Master of Arts in Bilingual and Multilingual Education from the University of Texas, and her Doctor of Philosophy in Educational Leadership and Administration from Texas A&M University.

***Kolvira Chheng, Assistant Superintendent, Business Services.*** Mr. Chheng worked at the Santa Clara County Office of Education for sixteen years, from 1999 to 2015, serving the following roles: AP/AR Specialist, Account II for the Special Education Program, District Advisor and Director of District Business and Advisory Services. Mr. Chheng joined the District in October 2015 as Director of Fiscal Services and was appointed to the Assistant Superintendent of Business Services in February of 2017. Mr. Chheng earned a Bachelor's of Science, Business Administration degree with a concentration in Accounting from San Jose State University.

***Management, Administration and Financial Matters.*** The District has experienced several external audits, has been the subject to oversight authority of the County Office of Education, and has had deficit spending and qualified interim reports which have impacted its management, operations and issuance of debt. For more detail on these topics, see "DISTRICT

FINANCIAL INFORMATION - District Budget and Interim Financial Reporting - Summary of Financial Oversight and related Reports and Investigations.”

**Recent Enrollment and ADA Trends**

Generally. The following table shows recent enrollment and ADA history for the District.

**ANNUAL ENROLLMENT AND ADA†  
Fiscal Years 2016-17 through 2021-22  
Alum Rock Union Elementary School District**

School Year	Enrollment	Percent Change	ADA	Percent Change
2016-17	10,494	--%	10,116	--%
2017-18	10,224	(2.6)	9,695	(4.2)
2018-19	9,765	(4.5)	9,261	(4.5)
2019-20*	9,374	(4.0)	8,788*	(5.1)
2020-21*	8,783	(6.3)	8,788*	0.0
2021-22	8,156	(7.1)	8,779*	(0.1)

†[Figures include enrollment of one dependent charter school in the District but does not include enrollment of independent charter schools sponsored by the District.]

\*The COVID-19 Pandemic caused in person schools to close in March of 2020. Pursuant to related State legislation, school district were held harmless for actual ADA for purposes of funding entitlements due to legislation arising due to COVID-19 pandemic. As such, noted figures do not necessarily reflect actual ADA. The held harmless provision relating to ADA was extended to the 2021-22 for certain districts.

Source: Alum Rock Union Elementary School District; SchoolWorks Inc. Demographics Study.

The District has been experiencing declining enrollment. The District generally attributes declines to low birth rates, charter school enrollment, and the cost of living in the region causing families to relocate out of the area. To address declines and to facilitate facilities and program planning, a Demographic Study was undertaken by SchoolWorks. Inc., dated January 2022. A decline in enrollment in the 2022-23 school year of 5.95% is projected, with declines projected over the next six years projected, with 6,243 students projected for the 2027-28 fiscal year. The study took into account expansion of the TK program to reflect the new “TK For ALL” initiative and the impacts of new housing developments, which was predicated on the development of 512 housing units over the next six years. The demographic study will need to be revised if there is an increase or decrease in building rates. Changes in facilities, schedules, programs or policies can impact the enrollment patterns predicted in the Demographic Study.

The District Board has taken actions to address declining enrollment in the District. See “DISTRICT FINANCIAL INFORMATION - District Budget and Interim Financial Reporting - Summary of Financial Oversight and related Reports and Investigations.” herein.

Charter Schools. The District sponsors and operates one dependent charter school, being the Aptitud Community Academy. The District accounts for this dependent charter school within its financial documents within the Charter School Fund.

The District also is a sponsor for three independent charter schools which operate within District boundaries, being KIPP Heartwood, Alpha Blanca Alvarado, and KIPP Prize. The enrollment at these charter schools have averaged 1,195 students over the past three fiscal years.

## Employee Relations

In fiscal year 2021-22 the District has 503.9 full time equivalent (“FTE”) certificated employees, 372.0 FTE classified employees and 80.0 management/Supervisor/Confidential FTE employees. District employees are represented by three employee bargaining units as follows:

### BARGAINING UNIT CONTRACTS Alum Rock Union Elementary School District

Name of Bargaining Unit	Employee Type Covered	Current Contract Term
Alum Rock Educators’ Association (CTA/NEA) (“AREA”)	Certificated	07/07/21-06/01/24
California School Employees Association-305 (“CSEA”)	Classified	07/01/20--06/30/23
Teamsters Local 150 (“Teamsters”)	Classified Maintenance, Operations and Support	07/01/17--06/30/20*

*\*Parties perform pursuant to expired terms pending contract settlement.  
Source: Alum Rock Union Elementary School District.*

The contracts with the bargaining units have annual salary re-openers. Salary re-openers are settled through the current fiscal year (2021-22) for each of the bargaining units. These terms were not available at the time of the Second Interim Report for fiscal year 2021-22 and as such settled terms are not reflected in the Second Interim Report, but will be included in the fiscal year 2022-23 Adopted Budget and related estimated actuals for fiscal year 2021-22.

## District’s Response to COVID-19 Pandemic

On March 17, 2020, the District announced that beginning March 18, 2020, through April 3, 2020, all of the District’s school sites and offices would close with minimal site staff, and on March 19, 2020, the Governor issued Executive Order N-33-20, a State-wide stay at home order to protect the health and well-being of all Californians and to establish consistency across the State to slow the spread of COVID-19. Such order went into effect immediately.

On June 25, 2020, staff shared a presentation titled “2020-2021 School Year Opening School Scenarios” with the Board of Education. The scenarios included several return to school options that took into consideration current state and county health recommendations to develop safe and viable instructional models. Scenarios were developed in collaboration with teams comprised of district and staff administrators, elementary and middle school teachers, and support staff, along with parent and community voice. Through this process staff was able to take into account health and safety guidelines, financial considerations, and instructional implications to develop equitable learning models to support the diverse needs of students and teachers. Scenarios included distance learning models, hybrid instructional models that incorporated a blend of in-person and distance learning, along with a blend of synchronous and asynchronous instruction

For the 2020-21 school year, the District offered instruction in formats consistent with local health guidelines. Throughout the pandemic, the District put into practice a number of safety

measures to protect students and employees and continues to revise safety measures to protect students and employees as needed.

The District opened the 2020-21 school year with a distance learning model. In October 2020, the District opened care pods at each site. These were small in-person cohorts of students for full day instruction with 1:10 ratio. As the need increased, more were added. Some schools had up to 4 cohorts. In April 2021, the District switched to in-person instruction for all students and staff that requested it. These were provided at all sites with a 1:12 ratio. This model continued until the end of the 2020-21 school year. In addition, the District provided in-person programs to support and reduce learning loss during the summer.

The District commenced the 2021-22 academic year with in-person instruction with an independent study option in accordance with legal requirements. The District plans to adjust its programs as needed to conform with any legal mandates or other requirements of health authorities.

The District has received and/or been allocated a total combined amount of approximately \$56.35 million from combined State and federal programs to address expenses arising from the COVID pandemic. The District will spend these funds in accordance with applicable guidelines and requirements. Expenditure is generally to occur by no later than September 30, 2024.

School districts funded under the LCFF, such as the District, will likely experience impacts on operating revenues due to the State's financial position including as impacted by the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on education funding cannot be fully predicted. See herein under the heading "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS" for information on the State's current and proposed budgets.

With respect to pension costs, the District cannot currently predict if the COVID-19 emergency will have a material impact on its required employer contributions which could rise if the unfunded actuarial accrued liabilities of PERS and STRS materially increase, although the State reduced contribution rates as part of its fiscal year 2020-21 Budget in response to the COVID-19 pandemic.

The District currently maintains reserves for economic uncertainties, which is projected in fiscal year 2021-22 to exceed the State's required minimum reserve of 3% of expenditures. See "DISTRICT FINANCIAL INFORMATION – District Budget and Interim Financial Reporting - District Reserves."

The impacts of the COVID-19 emergency on global, State-wide and local economies, which could impact District operations and finances, and local property values are unknown and cannot be predicted by the District. See also information herein under the heading "SECURITY FOR THE BONDS - Disclosure Relating to COVID-19 Pandemic."

## **Risk Management**

The District maintains insurance coverage for liabilities, including general liability, employee benefits liability, cyber liability and privacy crisis management and educators legal liability including employment practices liability. Coverage also is maintained for automobile liability, workers' compensation, employee crime coverage and an underground storage tank performance bond. The District also obtains coverage against property and equipment damage.

The policies are subject to standard policy limits and deductibles. The District also has obtained an umbrella insurance policy and an excess liability policy for additional coverage.

*[Remainder of page intentionally left blank]*

## DISTRICT FINANCIAL INFORMATION

*The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.*

### Education Funding Generally

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

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

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

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

- An additional concentration grant of up to 65% (which was increased from 50% as part of the State's trailer bill to the 2021-22 State Budget - Assembly Bill 130) of a local education agency's base grant, based on the number of English learners, students from low-income families and foster youth served by the local agency that comprise more than 55% of enrollment.
- An economic recovery target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

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

Full implementation of LCFF occurred in fiscal year 2018-19 in connection with adoption of the State Budget for said fiscal year. Funding levels used in the LCFF target entitlement calculations, not including any supplemental or concentration grant funding entitlements, for fiscal year 2021-22 are set forth in the following table.

**Fiscal Year 2021-22 Base Grant\* Under LCFF by Grade Span  
(Targeted Base Grant)**

<b>Entitlement Factors per ADA</b>	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
2019-20 Base Grants	\$7,702	\$7,818	\$8,050	\$9,329
Statutory COLA (2.31%)	\$178	\$181	\$186	\$215
2020-21 Base Grant Per ADA	\$7,880	\$7,999	\$8,236	\$9,544
2021-22 Funded COLA for LCFF (2.70%)	\$213	\$216	\$222	\$258
2021-22 Base Grant per ADA before Grade Span Adjustments	\$8,093	\$8,215	\$8,458	\$9,802
Grade Span Adjustment Factors	10.4%	--	--	2.6%
Grade Span Adjustment Amounts	\$842	--	--	\$255
2021-22 Adjusted Base Grants	\$8,935	\$8,215	\$8,458	\$10,057

\*Does not include supplemental and concentration grant funding entitlements.

Source: State Department of Education.

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

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



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

Basic Aid or Community Supported districts are school districts which have local property tax revenues which exceed such district's funding entitlement under LCFF. As such, in lieu of State funding under LCFF, Basic Aid districts are entitled to keep the full share of local property tax revenues, even the amount which exceeds its funding entitlement under LCFF. The District's funding formula is currently determined pursuant to LCFF, and not as a Basic Aid district.

### **District Accounting Practices**

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

District accounting is organized on the basis of funds, with each group consisting of a separate accounting entity. The major fund classification is the general fund which accounts for all financial resources not requiring a special fund placement. The District's fiscal year begins on July 1 and ends on June 30. For more information on the District's basis of accounting and fund accounting, see "APPENDIX B – Audited Financial Statements of the District for Fiscal Year Ending June 30, 2021 – Note 1 - Significant Accounting Policies" herein.

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

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

## Financial Statements

**General.** The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2021 Audited Financial Statements were prepared by Crowe LLP, Sacramento, California and are attached hereto as Appendix B. Audited financial statements for the District for prior fiscal years are on file with the District and available for public inspection at the Superintendent's Office at 2930 Gay Ave., San José, California 95127, Phone: (408) 928-6800. The District has not requested, and the auditor has not provided, any review or update of such financial statements in connection with inclusion in this Official Statement. Copies of such financial statements will be mailed to prospective investors and their representatives upon written request to the District. The District may impose a charge for copying, mailing and handling.

*[Remainder of page intentionally left blank]*

**General Fund Revenues, Expenditures and Changes in Fund Balance.** The District's general fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. The following tables show the audited income and expense statements for the District for fiscal years 2016-17 through 2020-21.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**General Fund Revenues, Expenditures and Changes in Fund Balance**  
**Fiscal Years 2016-17 through 2020-21 (Audited)**

	<b>Audited 2016-17</b>	<b>Audited 2017-18</b>	<b>Audited 2018-19</b>	<b>Audited 2019-20</b>	<b>Audited 2020-21</b>
<b>REVENUES</b>					
LCFF/Revenue Limit Sources	\$106,045,937	\$104,771,730	\$106,296,325	\$104,724,903	\$99,067,574
Federal	7,009,130	6,347,567	6,980,823	6,681,458	19,652,876
Other State	12,542,076	15,382,302	18,715,839	14,954,662	21,055,011
Other Local	9,177,475	8,854,617	8,812,518	8,382,354	9,886,925
Total Revenues	134,774,618	135,356,216	140,805,505	134,743,377	149,662,386
<b>EXPENDITURES</b>					
<b>Current:</b>					
Certificated salaries	60,458,979	62,420,458	60,394,244	57,825,556	57,389,571
Classified salaries	18,885,827	19,573,542	19,556,817	19,507,252	19,683,939
Employee benefits	30,832,418	33,724,542	40,175,369	36,943,057	35,126,117
Books and supplies	6,949,357	6,555,686	4,241,382	2,892,030	6,326,863
Contract services and operating	17,960,699	20,325,160	19,932,370	16,758,590	15,890,390
Capital outlay	2,429,054	256,415	602,237	2,502,945	222,470
Other outgo	646,737	930,954	1,041,796	590,504	--
Debt service: Principal	--	--	--	666,022	666,022
Debt service: Interest	--	--	--	--	--
Total Expenditures	138,163,071	143,786,757	145,944,215	137,685,956	135,305,372
Revenues Over (Under) Expends	<u>(3,388,453)</u>	<u>(8,430,541)</u>	<u>(5,138,710)</u>	<u>(2,942,579)</u>	14,357,014
<b>Other financing sources (uses):</b>					
Transfers in	356,932	3,030,678	447,190	2,161,895	324,104
Transfers out	--	--	<u>(250,000)</u>	<u>(250,000)</u>	<u>(500,000)</u>
Total other financing sources (uses)	356,932	3,030,678	<u>197,190</u>	1,911,895	<u>(175,896)</u>
Net Change in Fund Balance	(3,031,521)	(5,399,863)	(4,941,520)	(1,030,684)	14,181,118
Fund Balance, July 1	29,113,425	26,081,904	20,682,041	15,740,521	14,709,837
Fund Balance June 30	<u>\$26,081,904</u>	<u>\$20,682,041</u>	<u>\$15,740,521</u>	<u>\$14,709,837</u>	<u>\$28,890,995</u>

Source: Alum Rock Union Elementary School District Audit Reports.

As reflected in the foregoing table, the District experienced several years of deficit spending, wherein expenditures exceeded revenues. In part as a result of fiscal oversight of the County Office of Education and related audits and investigations, the District has taken steps to address deficit spending in fiscal year 2020-21 as well as in the current and future fiscal years. Notwithstanding qualified interim reports in recent years, the District's budget for fiscal year 2021-22 was approved by the County Superintendent, and both the First Interim and Second Interim Reports for fiscal year 2021-22 were certified as positive. For more information about the District historical finances and related actions, see below under "District Budget and Interim Financial Reporting - Summary of Financial Oversight and Related Reports and Investigations", and also "District's General Fund Fiscal Year 2021-22." The District's Budget for Fiscal Year 2022-23 is expected to be presented to the District Board at its meeting on June 23, 2022, and thereafter presented to the County Office of Education for approval.

## District Budget and Interim Financial Reporting

***District Budget Process.*** State law requires school districts to maintain a minimum required percentage in the current budget year and two subsequent years. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

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

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

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

A State law adopted in 1991 (“**A.B. 1200**”) imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the two (2) subsequent fiscal years. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the current fiscal year or the subsequent fiscal

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

Under California law (Education Code Section 42133), any school district or office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's or office's repayment of indebtedness is probable. During fiscal year 2021-22, the District's First Interim Report and Second Interim Report were both certified as positive, as shown in the following section.

***District's Budget Approval/Disapproval and Certification History.*** The following is a five-year summary of certifications of the District's interim reports:

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT  
Interim Report Status  
Fiscal Years 2016-17 through 2021-22 (Second Interim)**

<b>Interim Report</b>	<b>Certification Assigned*</b>
1st Interim 2016-17	Positive
2 <sup>nd</sup> Interim 2016-17	Positive
1st Interim 2017-18	Qualified
2 <sup>nd</sup> Interim 2017-18	Qualified
1st Interim 2018-19	Qualified
2 <sup>nd</sup> Interim 2018-19	Qualified
1st Interim 2019-20	Qualified
2 <sup>nd</sup> Interim 2019-20	Qualified
1st Interim 2020-21	Qualified
2 <sup>nd</sup> Interim 2020-21	Qualified
1st Interim 2021-22	Positive
2 <sup>nd</sup> Interim 2021-22	Positive

\*See following section for more detail.

The District had budgets conditionally approved for fiscal years 2019-20, 2018-19 and 2017-18. In 2017-18, due to the Santa Clara County Office of Education's ("COE's") concerns over the District's budget, a fiscal expert was appointed that same year. In 2018-19, in addition to a conditional approval, the budget was subsequently disapproved and, in lieu of a budget committee, a fiscal advisor and fiscal expert team were appointed to assist the district. See the following section for more detail on these actions.

The COE approved the District's 2020-21 Budget without conditions for the first time since the 2016-17 fiscal year budget cycle. The District's most recent budget, for fiscal year 2021-22, was approved by the COE, and both its First Interim and Second Interim reports for fiscal year 2021-22 have been certified as positive.

***Summary of Financial Oversight and Related Reports and Investigations***

Commencing in 2016, there have been several actions, audits and other events impacting the District, its management, finances and its ability to issue indebtedness. The following table sets forth a summary timeline of these events. The next subsequent table summarizes recent

steps by the District to address some of the recommendations made supporting fiscal solvency and accountability.

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**Events Relating to District Management and Finances**  
**Fiscal Years 2016-17 to 2020-21**

*[DRAFT ONLY; SUBJECT TO REVIEW BY DISTRICT AND DISTRICT COUNSEL FOR ACCURACY; DUE DILIGENCE IS ONGOING AT THIS TIME FOR COMPLETENESS]*

<u>October 2016</u> COE Requested FCMAT Audit	The COE, which is responsible for providing management assistance, in addition to support and intervention, to ensure that its school districts are fiscally viable, requested that the Fiscal Crisis and Management Assistance Team (“FCMAT”) conduct a review—referred to as an extraordinary audit—of the District.
<u>June 9, 2017</u> FCMAT Audit Released	FCMAT released an extraordinary audit concluding there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal activities may have occurred in the specific areas reviewed. 52 recommendations were made to the District to correct deficiencies in internal controls, construction management and program management contracts. FCMAT also recommended that the COE meet with the District to discuss rescinding the District’s fiscal independence status.
<u>July 1, 2017</u> Fiscal Independence Revoked	The state superintendent of public instruction may authorize a school district’s fiscal independence from its county office of education, meaning that the school district can issue payments for its own expenditures and operate its own financial accounting system, rather than being dependent on the county office to provide these services on its behalf. The District had been fiscally independent from the county office since fiscal year 1992–93. Effective July 1, 2017, the State superintendent of public instruction revoked the District’s fiscal independence because of the county office’s recommendation to do so based on the FCMAT report and other concerns. As of this date, the District continues to be fiscally dependent on the COE for financial and accounting systems.
<u>September 15, 2017</u> Budget Given “Conditional” Approval	The COE reviewed the District’s fiscal year 2017-18 budget and conditionally approved it, based on on-going and unresolved cash accounting issues and weaknesses in the District’s control environment and governance issues. The Budget was thereafter approved in November 2017.
<u>January 2018</u> Fiscal Experts Assigned to District	COE designated a group of three fiscal experts to support the District in strengthening its financial and operational processes.
<u>March 2018</u> Stay and Rescind Imposed by COE	COE, due to signs of fiscal distress because cash and debt service issues remained unresolved and because the District had requested an additional extension for filing its annual financial report, in accordance with State law, the COE implemented stay-and-rescind authority—the power to halt any action that the COE determines to be inconsistent with the ability of a school district to meet its financial obligations for the current or subsequent fiscal year.
<u>April 2018</u> Fiscal Advisor Appointed	COE appointed a fiscal advisor who had the authority to halt District actions on behalf of the COE. During the fiscal advisor’s tenure from April through December 2018, the COE used this authority once, in April 2018, to prevent the District from selling general obligation bonds until it improved its financial and operational practices.
<u>May 2019</u> Stay-and-Rescind Ended	The stay-and-rescind authority was no longer in force because COE approved the District’s budget and determined that the concerns FCMAT raised in its audit report about bond sales were resolved.
<u>May 2019</u> State Auditor Report	State Auditor released its audit report pertaining to the District and its operational and financial practices and governance and public transparency, concluding that the District and its Board must improve governance and operations to effectively serve the community.

<u>August 2020</u> FCMAT Fiscal Health Risk Analysis Released	As a result of three consecutive qualified interim reports, the FCMAT conducted a risk analysis. The report concludes that the District fiscal solvency risk level is high. The report focuses on systems and processes that may need improvement. The report focuses on a history of deficit spending, budgeting based on planned staffing reductions but a lack of corresponding formal Board action to eliminate positions, and declining enrollment. Additional areas of concerns such as budget monitoring, budget development and adoption of internal controls among others, were also highlighted.
<u>July 2021</u> 2021-22 District Budget	COE approved District's Budget.
<u>October 2021 and February 2022</u>	District's Interim Reports for Fiscal Year 2021-22 certified as positive.

The District has taken several proactive steps to address a balanced budget, to eliminate deficit spending, and to address the concerns and recommendations of FCMAT. These steps are summarized in the following table and the below paragraphs.

### **ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Districts Response to Concerns of Solvency**

*[DRAFT; SUBJECT TO REVIEW BY DISTRICT AND DISTRICT COUNSEL FOR ACCURACY; DUE DILIGENCE IS ONGOING AT THIS TIME FOR ACCURACY AND COMPLETENESS]*

<u>December 2018</u> District Resolution No. 20-18/19	Board adopted Resolution No. 20-18/19, Resolution Establishing Agreement Between the Governing Board of the District and the Santa Clara County Superintendent of Schools Regarding Necessary Revisions for Compliance with Statutory Budget Requirements in Conjunction with the Local Control Accountability Plan (Education Code Sections 42127 and 52070). This resolution required the District to provide monthly updates for an entire year to the Santa Clara County Office of Education on how the District is compliant with the recommendations and any necessary revisions by SCCOE.
<u>2019-20</u> SERP	Implementation by the District of a Supplemental Retirement Program.
<u>2019-20</u> Staffing Reductions	For the 2019-20 fiscal year, approved the reduction of 51.1 FTEs in AREA unit, 6.0 FTEs in certificated management, 2.00 FTEs in classified management, 21.80 FTEs in CSEA unit and 6.0 FTEs in Teamsters unit for a total estimated saving of \$7.7M. For the 2020-21 fiscal year, approved the reduction of 8.21 FTEs in classified staff for an estimated saving of \$600K.
<u>2019-20</u> Reduced Work Hours	Starting with the 2019-20 fiscal year, approved the reduction of work hours from 8 to 6 hours per day for a certain classification of the CSEA unit for an estimated saving of \$340K.
<u>March 2021</u> District Resolution No. 33-20/21 Commitment to Fiscal Solvency	The Board recognized a significant structural deficit that must be resolved, and resolved to reduce expenditures in all budget areas and examining potential sources of revenue including the repurposing of excess facilities, commencing with the Budget for fiscal year 2021-22.
<u>April 2021</u> Resolution 41-20/21 Closure of Schools	Board approved the closure of Fischer Middle School and its consolidation with the Renaissance Academy at Fischer at the 1720 Hopkins Drive, San Jose, CA site, effective 2021-22 school year, the closure of Mathson Middle School and its consolidation with the Renaissance Academy at Mathson at the site 2050 Kammerer Ave., San José, CA, effective the 2021-2022 school year.
<u>April 2022</u> Redesign of Schools for GF Savings	At the April 14, 2022, the Board approved the re-design of Cesar Chavez Elementary into the Cesar Chavez Early Learning Center. The Cesar Chavez Early Learning Center will serve Alum Rock students in Special Education Preschool, Young 4-year-olds, TK, and Kinder grades. The Early Learning Center will also increase Early Learning services

	from infant to preschool through a partnership with Kidango. The Cesar Chavez Early Learning Center will provide up to 9 hours of early care year-round for participating students and families. These actions will help achieve savings to the District's General Fund expenditures.
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In addition, in response to the 2020 FCMAT Audit, the District staff corrected all reported audit findings and successfully transitioned to the COE's financial and payroll system, which will assist the District with receiving additional support and oversight from the COE and implementing best practices within the District's operations.

The District administration is committed to continue identifying and informing the Board regarding budget issues/challenges and providing recommendations in order to keep the District solvent.

On March 3, 2022, the District Board adopted a Resolution placing a parcel tax measure on the June 7, 2022 ballot. The measure renews the existing parcel tax measure for an additional seven years, with a parcel tax of \$214.10 per parcel with a senior exemption. The funds will provide a continued source of general fund revenues and support reading and writing programs, provide salaries for teachers and counselors, and other programs. A two-thirds vote is required for passage.

Copies of Financial Documents. Copies of the District's budget, interim reports and certifications may be obtained upon request from the Superintendent's Office at 2930 Gay Ave., San José, California 95127, Phone: (408) 928-6800. Financial reports are also available online at the District's web site: [www.esuhsd.org](http://www.esuhsd.org). The contents of the District's web site are not incorporated herein by reference.

*[Remainder of page intentionally left blank]*



**District's General Fund Fiscal Year 2021-22.** The following table shows the income and expense statements for the District's general fund for fiscal year 2021-22 (adopted budget and second interim projections).

**ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**  
**General Fund - Revenues, Expenses and Changes in Fund Balance<sup>(1)</sup>**  
**Fiscal Year and 2021-22 (Adopted Budget and Second Interim Projections)**

	<b>Adopted Budget 2021-22</b>	<b>Second Interim 2021-22</b>
<b><u>Revenues</u></b>		
LCFF Sources	\$102,758,266	\$106,178,260
Federal Revenues	16,245,148	22,395,350
Other State Revenues	11,939,380	26,576,512
Other Local Revenues	7,423,571	8,566,032
Total Revenues	138,366,365	163,716,155
<b><u>Expenditures</u></b>		
Certificated Salaries	54,549,187	56,676,794
Classified Salaries	19,875,770	20,254,694
Employee Benefits	38,151,244	37,860,989
Books and Supplies	3,575,546	14,042,420
Services and Other Operating Expenditures	17,109,847	32,113,382
Capital Outlay	240,400	2,138,938
Other Outgo (Excluding Indirect Costs)	746,022	746,022
Other Outgo – Transfers of Indirect Costs	(407,227)	(435,784)
Total Expenditures	133,840,790	163,400,456
<b>Excess of Revenues Over/(Under) Expenditures</b>	4,525,575	315,699
<b><u>Other Financing Sources (Uses)</u></b>		
Operating Transfers In	--	--
Operating Transfers Out	--	--
Other Sources	--	--
Total Other Financing Sources (Uses)	--	--
<b>Net Change In Fund Balance</b>	4,525,575	315,699
Fund Balance, July 1	28,890,956	28,890,956
Other restatements	(3,034,429)	(3,034,429)
Adjusted beginning balance	25,856,527	25,856,527
Fund Balance, June 30	\$30,382,103	\$26,172,226

(1) Columns may not add to totals due to rounding.  
Source: Alum Rock Union Elementary School District.

The projections set forth above for fiscal year 2021-22 do not include settled bargaining unit compensation terms for fiscal year 2021-22, which were determined following the Second Interim Report. The settled terms were 3.25% on-going and 3.0% one-time off schedule payment, and will be reflected in the estimated actuals in connection with Board approval of the 2022-23 Budget. This document is expected to be presented to the Board on June 23, 2022.

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

minimum requirements. See also above discussion under the heading “DISTRICT FINANCIAL INFORMATION - District Budget and Interim Financial Reporting - District’s Budget Approval/Disapproval and Certification History.”

Under State law (Education Code Section 42127.01), there are certain restrictions on the amount of reserves that can be maintained by LCFF-funded districts with ADA over 2,500 under certain circumstances. State law provides that in a fiscal year immediately after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total of general fund revenues appropriated for school districts, the school district budget shall not contain a combined assigned or unassigned ending general fund balance that is in excess of 10% of those funds. A county superintendent of schools may grant a school district under its jurisdiction an exemption from the requirements under certain circumstances.

The District cannot predict if or when the foregoing reserve cap will be triggered, or when or how any additional changes to legal provisions governing the reserve cap would impact its reserves and future spending. The State’s budget for fiscal year 2021-22 projects that the reserve cap may be triggered beginning in fiscal year 2022-23. See “STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS.”

#### **Attendance - LCFF Funding**

**Funding Trends.** As previously described, prior to fiscal year 2013-14, school districts in the State derived most State funding based on a formula which considered a revenue limit per unit of ADA. With the implementation of the LCFF, commencing in fiscal year 2013-14, school districts receive base funding based on ADA, and may also be entitled to supplemental funding, concentration grants and funding based on an economic recovery target. The following table sets forth education funding trends in the District for fiscal years 2016-17 through 2021-22 (projected), not including other sources such as federal and local sources.

**ADA AND LCFF AID FUNDING TRENDS**  
**Fiscal Years 2016-17 through 2021-22 (Projected)**  
**Alum Rock Union Elementary School District**

<b>Fiscal Year</b>	<b>ADA</b>	<b>Total LCFF Funding</b>
2016-17	10,116	\$106,045,937
2017-18	9,695	104,771,730
2018-19	9,261	106,296,325
2019-20	8,788	104,724,903
2020-21	8,788	99,067,574
2021-22 <sup>(1)</sup>	8,779	106,178,260

<sup>(1)</sup> Second Interim Projection.

Source: California Department of Education; Alum Rock Union Elementary School District.

Unduplicated Count. The District has a Target Student unduplicated count of approximately 82.47% in fiscal year 2021-22. As such, the District receives supplemental and concentration funding under LCFF based on this percentage.

Possible Impacts of COVID-19. As described herein, the short-term and long-term impact of COVID-19 on the District’s attendance, revenues and local property values, and the impacts of Federal and State legislation resulting from the COVID-19 emergency, cannot be predicted. The

Bonds described in this Official Statement are secured by *ad valorem* property taxes, and not the District's general fund. See "SECURITY FOR THE BONDS – Disclosure Relating to COVID-19 Global Pandemic."

## **Revenue Sources**

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

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

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

The principal component of local revenues is the school district's property tax revenues, i.e., the district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. Education Code Section 42238.03(c) itemizes the local revenues that are subtracted from the base entitlement to determine the amount of the State apportionment of funding.

**Federal Revenues.** The federal government provides funding for several District programs, including special education programs, programs under Every Student Succeeds, the Individuals with Disabilities Education Act, and specialized programs such as Drug Free Schools.

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

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues generally comprise approximately 2% of general fund revenues. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instruction material.

For additional discussion of State aid to school districts, see "STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS - State Funding of Education" below.

**Other Local Revenues.** In addition to property taxes, the District receives additional local revenues from items such as interest earnings and other local sources. The District also receives voter-approved parcel tax revenues. These provide approximately \$4.5 million in revenues per year. The parcel tax is on the June 7, 2022 ballot as a renewal measure. A two-thirds vote is required for approval.

## District Retirement Systems

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

**STRS.** All full-time certificated employees participate in STRS, a cost-sharing, multiple-employer contributory public employee retirement system. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teacher's Retirement Law. Due to the implementation of the Public Employee Pension Reform Act of 2013 ("**PEPRA**") (see below summary), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. The District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2013-14 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for recent fiscal years are set forth in the following table. These contributions represent 100 percent of the required contribution for each year.

### **STRS EMPLOYER CONTRIBUTIONS Alum Rock Union Elementary School District Fiscal Years 2016-17 through 2021-22 (Projected)**

<b>Fiscal Year</b>	<b>Amount</b>
2016-17	\$7,165,720
2017-18	8,448,549
2018-19	9,182,218
2019-20	9,309,679
2020-21	8,527,795
2021-22 <sup>(1)</sup>	15,292,219

(1) Projected at Second Interim and inclusive of State's on behalf payment.  
Source: Alum Rock Union Elementary School District.

Prior to fiscal year 2014-15, employee, employer and State contribution rates did not vary annually to account for funding shortfalls or surpluses in the STRS plan. School districts were required to contribute by statute 8.25% of eligible salary expenditures and participants contributed 8% of their respective salaries. However, in September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming contribution rates at that time continued and other actuarial assumptions were realized. This shortfall resulted from the combination of investment losses and insufficient statutory contribution rates. To address this problem, in connection with the State's adoption of its fiscal year 2014-15 Budget, the Governor signed into law Assembly Bill 1469 ("**AB 1469**"). AB 1469 seeks to fully fund the unfunded actuarial obligation with respect to service credited to members of the STRS Defined Benefit

Program before July 1, 2014 (the “**2014 Liability**”) within 32 years by increasing member, K-14 school district and State contributions to STRS. Under AB 1469, K-14 school districts’ contribution rates increased from fiscal year 2014-15 through 2020-21 as shown in the following table, along with projections for the employer rates for fiscal years 2021-22 through 2023-24.

**STRS EMPLOYER CONTRIBUTION RATES**  
**Fiscal Years 2014-15 through 2023-24**

<b>Fiscal Year</b>	<b>Employer Contribution Rate</b>
2014-15	8.88%
2015-16	10.73
2016-17	12.58
2017-18	14.45
2018-19	16.28
2019-20	17.10 <sup>(1)</sup>
2020-21	16.15 <sup>(2)</sup>
2021-22	16.92 <sup>(3)</sup>
2022-23	19.10 <sup>(3)</sup>
2023-24	19.10 <sup>(3)</sup>

(1) Reduced from 18.13% under AB 1469 to 17.10% due to State supplemental payments to STRS under SB 90 and other State contributions to STRS.

(2) Reduced from 19.10% under AB 1469 to 16.15% due to State supplemental payments to STRS under SB 90 and other State contributions to STRS.

(3) Projected.

Source: AB 1469; STRS

The STRS unfunded liability, on a market value of assets basis, was approximately \$105.875 billion as of June 30, 2020.

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

**PERS EMPLOYER CONTRIBUTIONS**  
**Alum Rock Union Elementary School District**  
**Fiscal Years 2016-17 through 2021-22 (Projected)**

<b>Fiscal Year</b>	<b>Amount</b>
2016-17	\$2,722,647
2017-18	3,500,924
2018-19	3,996,472
2019-20	4,202,875
2020-21	4,288,349
2021-22 <sup>(1)</sup>	4,564,063

(1) Projected at Second Interim.

Source: Alum Rock Union Elementary School District.

The PERS program has experienced an unfunded liability in recent years. The PERS unfunded liability, on a market value of assets basis, was approximately \$32.7 billion as of June 30, 2020 (the date of the last actuarial valuation). To address this issue, the PERS board has taken a number of actions. In April 2013, for example, the PERS board approved changes to the PERS amortization and smoothing policy intended to reduce volatility in employer contribution rates. In addition, in April 2014, PERS set new contribution rates, reflecting new demographic assumptions and other changes in actuarial assumptions. In November 2015, PERS adopted a funding risk mitigation policy intended to incrementally lower its discount rate (its assumed rate of investment return) in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. In December 2016, PERS voted to lower its discount rate from the current 7.5% to 7.0% over the next subsequent three years according to the following schedule.

**PERS DISCOUNT RATE**  
**Fiscal Years 2018-19 through 2020-21**

<b>Fiscal Year</b>	<b>Amount</b>
2018-19	7.375%
2019-20	7.250
2020-21	7.000

Source: PERS.

The new rates and underlying assumptions, which are aimed at eliminating the unfunded liability of PERS in approximately 30 years, was implemented for school districts beginning in fiscal year 2016-17, with the costs spread over 20 years and the increases phased in over the first five years.

The District's employer contribution rates for the current and next two fiscal years are set forth in the following table.

**EMPLOYER CONTRIBUTION RATES (PERS)**  
**Fiscal Years 2021-22 through 2023-24<sup>(1)</sup>**

Fiscal Year	Employer Contribution Rate <sup>(2)</sup>
2021-22	22.910%
2022-23	26.100
2023-24	27.100

(1) The PERS board is expected to approve official employer contribution rates for each fiscal year shown during the immediately preceding fiscal year.

(2) Expressed as a percentage of covered payroll. Rates have been reduced following adoption of the fiscal year 2020-21 State Budget and SB 90 and AB 84.

Source: PERS

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

PERS has predicted that the impact of PEPRA on employees and employers, including the District and other employers in the PERS system, will vary, based on each employer's current level of benefits. As a result of the implementation of PEPRA, new members must pay at least 50% of the normal costs of the plan, which can fluctuate from year to year. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn.

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

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

***Additional Information.*** Additional information regarding the District's retirement programs is available in Notes 8 and 9 to the District's audited financial statements attached hereto as APPENDIX B. In addition, both STRS and PERS issue separate comprehensive financial reports that include financial statements and required supplemental information. Copies of such reports may be obtained from STRS and PERS, respectively, as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; and (ii) PERS, 400 Q Street, Sacramento, California 95811. More information regarding STRS and PERS can also be obtained at their websites, [www.calstrs.com](http://www.calstrs.com) and [www.calpers.ca.gov](http://www.calpers.ca.gov), respectively. *The references to these Internet websites are shown for reference and convenience only and the information contained on such websites is not incorporated by reference into this Official Statement. The information contained on these websites may not be current and has not been reviewed by the District or the Underwriter for accuracy or completeness.*

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

The District does not provide other post-employment benefits to its retirees.

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## Existing Debt Obligations

In addition to debt relating to retirement plans and post-employment benefits as described above, the District has debt in the form of voter-approved general obligation bonds which are secured by *ad valorem* taxes, and general fund debt in the form of refunding bonds relating to OPEB liability, and capital leases. These obligations are described below. The District has never defaulted on the payment of principal or interest on any of its long-term indebtedness.

**Summary of General Obligation Debt.** The following table summarizes the District's general obligation bond debt which is currently outstanding.

### ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT Schedule of Long Term General Obligation Debt

Issue	Date Issued	Final Maturity Date	Original Amount	Amount Outstanding May 1, 2022
<u>2012 Authorization</u>				[To come from Dale Scott's office]
Series A	07/31/13	08/01/43	\$32,400,000	
Series B	08/29/13	08/01/23	3,600,000	
Series C	01/28/16	08/01/40	17,500,000	
<u>2015 Refunding Bonds</u>				
2015 RGOBs	09/09/15	08/01/25	37,395,000	
<u>2016 Refunding Bonds</u>				
Series A	11/22/16	08/01/26	1,855,000	
Series B	11/22/16	08/01/26	7,085,000	
Totals			\$99,835,000	

## Investment of District Funds

In accordance with Government Code Section 53600 *et seq.*, the Santa Clara County Treasurer manages funds deposited with it by the District. The County is required to invest such funds in accordance with California Government Code Sections 53601 *et seq.* In addition, counties are required to establish their own investment policies, which may impose limitations beyond those required by the Government Code. See APPENDIX G hereto for a copy of the County's Investment Policy and recent investment report.

## Effect of State Budget on Revenues

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

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. The District cannot predict how education funding may further be changed in the future, or the state of the economy which in turn can impact the amounts of funds available from the State for education funding.

## STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS

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

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

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

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

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

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

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

## **Recent State Budgets**

Certain information about the State budgeting process and the State budget (the “**State Budget**”) is available through several State of California sources. A convenient source of information is the State’s website, where recent official statements for State bonds are posted. *The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District or the Underwriter and is not incorporated herein by reference.*

- The California State Treasurer Internet home page at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading “Bond Finance” and sub-heading “-Public Finance Division”, (1) posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, and (2) also posts various financial documents for the State under the “-Financial Information” link.
- The California Department of Finance’s Internet home page at [www.dof.ca.gov](http://www.dof.ca.gov), under the heading “California Budget”, includes the text of proposed and adopted State Budgets.
- The State Legislative Analyst’s Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst’s Internet home page at [www.lao.ca.gov](http://www.lao.ca.gov) under the headings “The Budget” and “State Budget Condition.”

**Prior Years’ Budgeting Techniques.** Declining revenues and fiscal difficulties which arose in the State commencing in fiscal year 2008-09 led the State to undertake a number of budgeting strategies, which had subsequent impacts on local agencies within the State. These techniques included the issuance of IOUs in lieu of warrants (checks), the enactment of statutes deferring amounts owed to public schools until a later date in the fiscal year or even into the following fiscal year (known as statutory deferrals), trigger reductions, which were budget cutting measures which were implemented or could have been implemented if certain State budgeting goals were not met, and the dissolution of local redevelopment agencies in part to make available additional funding for local agencies. As a result of the COVID-19 pandemic and subsequent economic recession, budget-cutting strategies such as those used in recent years are being used and may continue to be used in the future during a period of budgetary strain.

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

### **The 2021-22 State Budget**

On June 14, 2021 the State Legislature adopted the 2021-22 State Budget Act bill (the "**2021-22 State Budget Act**"), and on June 28, 2021 adopted certain changes and associated trailer bills. On July 12, 2021, the Governor signed the 2021-22 State Budget Act (as enacted, the "**2021-22 State Budget**"), a historic \$262.6 billion spending plan fueled by a \$76 billion state surplus and \$27 billion in aid from the federal government. The following is drawn from the Department of Finance ("**DOF**") summary of the 2021-22 State Budget.

The 2021-22 State Budget indicates that revenues are up significantly from the forecast included in the Governor's proposed State budget for fiscal year 2021-22, resulting in a large budgetary surplus. This is a result of strong cash trends, two major federal relief bills since the beginning of 2021, continued stock market appreciation, and a significantly upgraded economic forecast from the prior fiscal year. The 2021-22 State Budget also reports that the State has received approximately \$285 billion in federal COVID-19 stimulus funding for State programs. Although the 2021-22 State Budget acknowledges that building reserves and paying down debts are critical, the 2021-22 State Budget allocates approximately 85% of discretionary funds to one-time spending. The multi-year forecast reflects a budget roughly in balance, although the 2021-22 State Budget assumes that risks remain to the economic forecast, including a stock market decline that could reduce State revenues.

For fiscal year 2020-21, the 2021-22 State Budget projects total general fund revenues and transfers of \$188.8 billion and authorizes expenditures of \$166.1 billion. The State is projected to end the 2020-21 fiscal year with total available reserves of \$39.8 billion, including \$25.1 billion in the traditional general fund reserve, \$12.3 billion in the State's Budget Stabilization Account ("**BSA**"), \$1.9 billion in the Public School System Stabilization Account ("**PSSSA**") and \$450 million in the Safety Net Reserve Fund. For fiscal year 2021-22, the 2021-22 State Budget projects total general fund revenues and transfers of \$175.3 billion and authorizes expenditures of \$196.4 billion. The State is projected to end the 2021-22 fiscal year with total available reserves of \$25.2 billion, including \$4 billion in the traditional general fund reserve, \$15.8 billion in the BSA, \$4.5 billion in the PSSSA and \$900 million in the Safety Net Reserve Fund. The balance in the PSSSA in fiscal year 2021-22 is projected to trigger school district reserve caps under Education Code Section 42127.01 beginning in fiscal year 2022-23.

The 2021-22 State Budget sets the Proposition 98 minimum funding guarantee for fiscal year 2021-22 at \$93.7 billion. This results in per-pupil funding of \$13,976 from Proposition 98 funding, growing to \$21,555 when accounting for all funding sources. The Proposed 2021-22 State Budget also makes retroactive increases to the minimum funding guarantee in fiscal years 2019-20 and 2020-21, setting them at \$79.3 billion and \$93.4 billion, respectively. Collectively, this represents a three-year increase in the minimum funding guarantee of \$47 billion from the level projected by the 2020-21 State budget.

Other significant features relating to K-12 school district funding include the following:

- *Local Control Funding Formula* – The 2021-22 State Budget funds a compounded COLA of 4.05%, representing an adjustment of 2.31% allocable to fiscal year 2020-21 and a fiscal year 2021-22 adjustment of 1.7%. Additionally, to assist local educational agencies address ongoing fiscal pressures, the 2021-22 State Budget also includes \$520 million in Proposition 98 funding to provide a 1% increase in LCFF base funding. This discretionary increase, when combined with the compounded COLA, results in a 5.07% growth in LCFF funding over 2020-21 levels. In addition, to increase the number of adults providing direct services to students on school campuses, the 2021-22 State Budget includes an ongoing increase to the LCFF Concentration Grant of \$1.1 billion, an increase from 50% to 65%. See “– State Funding of Education – Local Control Funding Formula” herein. Local educational agencies that are recipients of these funds will be required to demonstrate in their LCAPs how these funds are used to increase the number of certificated and classified staff on their campuses, including school counselors, nurses, teachers, paraprofessionals, custodial staff, and other student support providers.
- *Deferrals* – The State budget for fiscal year 2020-21 deferred approximately \$1.9 billion in K-12 apportionments in fiscal year 2019-20, growing to more than \$11 billion in fiscal year 2020-21. The 2021-22 State Budget eliminates in its entirety all K-12 deferrals in fiscal year 2021-22.
- *Universal Transitional Kindergarten* – The 2021-22 State Budget includes a series of provisions intended to incrementally establish a universal transitional kindergarten for four-year-old children. Full implementation is expected by fiscal year 2025-26. Local educational agencies will be able to use fiscal year 2021-22 for planning and infrastructure development. The 2021-22 State Budget indicates that the costs to the State general fund of the plan are projected to be approximately \$600 million in fiscal year 2022-23, growing to approximately \$2.7 billion in fiscal year 2025-26. The 2021-22 State Budget includes \$200 million in one-time Proposition 98 funding for planning and implementation grants for all local educational agencies, and \$100 million in one-time Proposition 98 funding to train and increase the number of early childhood educators. To build on and enhance the quality of the existing transitional kindergarten program, the 2021-22 State Budget also proposes new ongoing Proposition 98 funding beginning in fiscal year 2022-23 to provide one additional certificated or classified staff person in each transitional kindergarten classroom, reducing adult-to-child ratios from 1:24 to 1:12.
- *Student Supports* – \$3 billion, available over several years, to expand and strengthen the implementation and use of community school models in communities with high levels of poverty. Community schools typically integrate health, mental health and other services for students and families and provide these services directly on school campuses. In addition, the 2021-22 State Budget provides \$547.5 million in one-time Proposition 98 funding to assist high school students, particularly those that are eligible for free and/or reduced priced meals, English learners or foster youth, to graduate having completed certain classes required for admission to the California State University and University of California systems.

- *County Offices of Education.* In recognition of the disproportionate impact of the COVID-19 pandemic on youth in foster care, the 2021-22 State Budget provides \$30 million in one-time Proposition 98 funding to county offices of education to work with local partners to coordinate and provide direct services to these students.
- *Expanded Learning Time* – \$1.8 billion of Proposition 98 funding as part of a multi-year plan to implement expanded-day, full-year instruction and enrichment for all elementary school students, with a focus on local educational agencies with the highest concentrations of low-income students, English language learners, and youth in foster care. Pursuant to this plan, all local educational agencies will receive funding for expanded learning opportunities based on their number of low-income students, English language learners, and youth in foster care, with local educational agencies with the highest concentrations of these students receiving a higher funding rate. All local educational agencies will be required to offer expanded learning opportunities to the students generating the funding, with the local educational agencies receiving the higher funding rate required to offer expanded learning opportunities to all students. Students will have access to no-cost after school and summer programs, which when combined with regular instructional time, is expected to provide these students with the opportunity for nine hours of developmentally appropriate academics and enrichment activities per instructional day and for six weeks each summer. Additionally, these programs will be required to maintain adult-to-student ratios of no less than 1:10 for transitional kindergarten and kindergarten students and 1:20 for students in first through sixth grades.
- *Educator Preparation, Retention and Training* – \$2.9 billion to support a variety of initiatives intended to further expand the State's educator preparation and training infrastructure, including meeting the needs of early childhood educators.
- *Nutrition* – \$54 million in additional Proposition 98 funding to reimburse all meals served to students, including those who would not normally qualify for reimbursement under the State's existing meal program. Beginning in fiscal year 2022-23, all public schools will be required to provide two free meals per day to any student who requests one, regardless of income eligibility. Further, all schools eligible for the federal universal meals provision program will be required to apply for it, and the State will cover any remaining unreimbursed costs up to the federal free per-meal rate, at an estimated annual cost of \$650 million in Proposition 98 funding. Additionally, the 2021-22 State Budget provides \$150 million in one-time Proposition 98 funding for school districts to upgrade kitchen infrastructure and equipment, and to provide training to food service employees.
- *Remote Learning* – The 2021-22 State Budget requires that all districts return to full-time in-person instruction for the 2021-22 school year. Consistent with all school years prior to fiscal year 2020-21, this mode of instruction will be the default for all students, and generally one of only two ways in which local educational agencies can earn State apportionment funding in fiscal year 2021-22. However, to give families a high-quality option for non-classroom based instruction, and to provide local educational agencies with an option to generate state funding by serving students outside the classroom in response to parent requests, the Budget requires school districts and county offices of education to provide students with an independent study option and includes a series of improvements to the state's existing independent study programs.

- *Special Education* – \$1.7 billion to invest in and improve instruction and services for students with disabilities to provide, among other things, learning recovery support, an increase in the State-wide base funding rate for special education funding, a 4.05% COLA to State special education funding, and early intervention services for preschool-aged children.
- *Career Technical Education (“CTE”)* – An increase of \$150 million in ongoing Proposition 98 funding to augment opportunities for local educational agencies to participate in the CTE Incentive Grant Program. The 2021-22 State Budget also provides an increase of \$86.4 million in one-time Proposition 98 funding for CTE regional occupational centers or programs operated by joint powers authorities to address costs associated with the COVID-19 pandemic.

For additional information regarding the 2021-22 State Budget, see the DOF website at [www.dof.ca.gov](http://www.dof.ca.gov). However, the information presented on such website is not incorporated herein by reference.

### **The 2022-23 Proposed State Budget**

On January 10, 2022, the Governor outlined his proposed budget for fiscal year 2022-23 to the State legislature (the “**2022-23 Proposed State Budget**”). The State has a projected surplus of \$45.7 billion, which includes \$20.6 billion in General Fund for discretionary purposes, \$16.1 billion in additional Proposition 98 for K-14 education, and \$9 billion in reserve deposits and supplemental pension payments. The 2022-23 Proposed State Budget allocates 86% of the discretionary surplus to one-time investments, and is projected to be structurally balanced in 2025-26, the last year in the multi-year forecast.

The 2022-23 Proposed State Budget reflects \$34.6 billion in budgetary reserves. The Rainy Day Fund is now at the constitutional maximum (10% of General Fund revenues) requiring \$2.4 billion to be dedicated for infrastructure investments in 2022-23. The 2022-23 Proposed State Budget accelerates the paydown of State retirement liabilities as required by Proposition 2, with \$3.9 billion in additional payments in 2022-23 and nearly \$8.4 billion projected to be paid over the next three years. In addition, the 2022-23 Proposed State Budget projects the State Appropriations Limit or "Gann Limit" will likely be exceeded in the 2020-21 and 2021-22 fiscal years., and as such any funds above this limit are constitutionally required to be allocated evenly between schools and a tax refund. An updated calculation of this limit, and proposals to address it, will be included in the May Revision.

Highlights of the 2022-23 Proposed State Budget are:

- To address COVID-19, a request for early action to allocate an additional \$1.4 billion for the remainder of the 2021-22 fiscal year, and reflects \$1.3 billion for 2022-23 to continue COVID-19 efforts in the 2022-23 fiscal year.
- To permanently expand the State's ability to protect public health and address social determinants of health, includes \$300 million General Fund for the Department of Public Health and local health jurisdictions and also includes major ongoing investments to modernize public health data systems that have been critical during the COVID-19 pandemic.

- Total funding of \$119 billion for K-12 education, with K-12 per-pupil funding of \$15,261 Proposition 98 General Fund, its highest level ever, and \$20,855 per pupil when accounting for all funding sources.
- \$1 billion Proposition 98 General Fund to universal transitional Kindergarten to all four-year-olds, increasing access to at least 56,000 children and reducing student-to-adult ratios, with full implementation planned by 2025-26.
- \$309 million total funds to focus the State preschool program to better serve dual language learners and students with disabilities.
- \$3.4 billion Proposition 98 General Fund ongoing to support for after-school and summer program, with access to expanded-day, full-year instruction and enrichment for all elementary school students and an additional \$937 million Proposition 98 General Fund to support integrating arts and music into enrichment programs.
- \$500 million in additional tax relief over several years for the small business relief program through state conformity for qualified California recipients of federal relief grants in significantly impacted industries.
- \$150 million one-time General Fund to support small businesses previously waitlisted in prior rounds of the State's Small Business COVID-19 Relief Grant Program.
- \$3 billion General Fund over the next two years to reduce the Unemployment Insurance Trust Fund debt owed to the federal government.
- \$1.7 billion to expand the State's health and human services workforce, including training strategies to increase the State's workforce of nurses, social workers, emergency medical technicians, behavioral health care providers, and community health care workers.
- \$35 million General Fund to create regional workforce development and training hubs focused on climate change and \$30 million General Fund over two years to train, develop, and certify forestry professional
- \$1.2 billion over two years to continue investments in forest health and fire prevention, including a major new reforestation effort.
- \$750 million General Fund to address immediate drought response needs, including \$250 million set aside as a contingency.
- \$9.1 billion (\$4.9 billion General Fund and \$4.2 billion Proposition 1A bond funds) to support the continued development of a first-in-the-nation, electrified high-speed rail system, regional transit and rail projects, bicycle and pedestrian projects, and climate adaptation projects, with a particular focus on aligning the State's transportation system with its climate goals.



- \$6.1 billion (General Fund, Proposition 98 General Fund, federal funds, and Greenhouse Gas Reduction Fund) over five years, which builds on last year's unprecedented zero-emission package, for a total of \$10 billion to advance California's climate and transportation goals.
- \$2 billion General Fund over two years to provide incentives for long-duration-storage projects, renewable hydrogen, and industrial decarbonization, including in the food processing sector.
- \$1.5 billion over two years to accelerate the development of affordable housing.
- \$30 million to create the Office of Health Care Affordability, charged with increasing the transparency of pricing, developing specific cost targets for different sectors of the health care industry, and imposing financial consequences for entities failing to meet these targets.
- \$2 billion General Fund over two years to continue the State's efforts to address homelessness by investing in behavioral health housing and encampment cleanup grants.
- \$285 million General Fund over three years for grants to bolster local law enforcement response to organized retail theft crime, as well as to assist local prosecutors in holding perpetrators accountable and \$18 million General Fund over three years for the Attorney General to prosecute organized retail theft crimes.
- \$5 million ongoing General Fund for the Attorney General to continue leading anti-crime task forces throughout the State.

The next step in the 2022-23 State budget process is the Governor's May Revise, which updates the Governor's economic and revenue outlook and revises, supplements or withdraws initiatives included in the proposed budget.

### **Disclaimer Regarding State Budgets**

The execution of State budgets, including proposed budgets, may be affected by numerous factors, including but not limited to: (i) shifts in costs from the federal government to the State, (ii) national, State and international economic conditions, (iii) litigation risks associated with proposed spending reductions, (iv) rising health care costs and/or other unfunded liabilities, such as pension or OPEB, and (v) numerous other factors, all or any of which could cause the revenue and spending projections included in such budgets to be unattainable. The District cannot predict the impact that the 2021-22 State Budget or subsequent State Budgets, will have on its own finances and operations. However, the Bonds are secured by *ad valorem* property taxes levied and collected on taxable property in the District, without limit as to rate or amount, and are not secured by a pledge of revenues of the District or its general fund.

The State has not entered into any contractual commitments with the District, the County, the Underwriter or the Owners of the Bonds to provide State Budget information to the District or the owners of the Bonds. Although they believe the sources of information listed below are

reliable, neither the District nor the Underwriter assume any responsibility for the accuracy of the State Budget information set forth or referred to in this Official Statement or incorporated herein.

### **Availability of State Budgets**

The complete adopted State budgets and related information are available from the California Department of Finance website at [www.ebudget.ca.gov](http://www.ebudget.ca.gov). Impartial analyses of these documents are published by the LAO and can be accessed at [www.lao.ca.gov/budget](http://www.lao.ca.gov/budget). The District can take no responsibility for the continued accuracy of internet addresses referenced herein or for the accuracy, completeness or timeliness of information posted on these sites, and such information is not incorporated in this Official Statement by these references. The information referred to above should not be relied upon when making an investment decision with respect to the Bonds.

### **Uncertainty Regarding Future State Budgets**

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

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

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

## CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

### Constitutionally Required Funding of Education

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

### Article XIII A of the California Constitution

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

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

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

among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

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

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

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

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

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

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

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

### **Unitary Property**

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

### **Articles XIIC and XIID of the California Constitution**

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

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

On November 2, 2010, Proposition 26 was approved by State voters, which amended Article XIIC to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (a) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or

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

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

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

## **Proposition 98**

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

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

surplus. The maximum amount of excess tax revenues which could be transferred to K 14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

### **Proposition 111**

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

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

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

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

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

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

***School Funding Guarantee.*** There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (a) 40.9% of State general fund revenues (the "**first test**") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to *per capita*

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

### **Proposition 39**

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

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

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

On November 2, 2004, California voters approved Proposition 1A, which amended the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (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. Under Proposition 1A, beginning in 2008-09, the State may shift to schools



and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amended the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

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

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

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

The Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment, also known as “**Proposition 30**”, temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017. This excise tax was levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending December 31, 2018, Proposition 30 increases for such period the marginal personal income tax rate by: (a) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for head of household filers and over \$500,000 but less than \$600,000 for joint filers), (b) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for head of household filers and over \$600,000 but less than \$1,000,000 for joint filers), and (c) 3% for taxable income over \$500,000 for single filers (over \$680,000 for head of household filers and over \$1,000,000 for joint

filers). Proposition 55 (described below) extended said increases to personal income rates through the end of 2030.

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

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

### **California Senate Bill 222**

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

### **Proposition 19**

On November 3, 2020, State voters approved Proposition 19, a legislatively referred constitutional amendment (“**Proposition 19**”), which amends Article XIII A to (i) expand as of April 1, 2021 special rules that govern the transfer of a residential property’s tax base value to a replacement residence for homeowners that are over the age of 55, severely disabled, or whose property has been impacted by wildfire or natural disaster, when they buy a different home anywhere within the State, (ii) narrows as of February 16, 2021 existing special rules for the valuation of inherited real property due to a transfer between family members, and (iii) allocates

most resulting State revenues and savings (if any) to fire protection services and reimbursing local governments for taxation-related changes. The District cannot predict whether the implementation of Proposition 19 will increase, decrease or have no overall impact on the District's assessed values.

### **Future Initiatives**

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

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## **APPENDIX B**

### **AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2020-21**

## APPENDIX C

### GENERAL INFORMATION ABOUT THE CITY OF SAN JOSÉ AND SANTA CLARA COUNTY

*The following information concerning the Santa Clara County (the “**County**”) and the City of San José (the “**City**”) is included only for the purpose of supplying general information regarding the area of the District. The Bonds are not a debt (or a pledge of the full faith and credit) of the City, the County, the State or any of its political subdivisions, other than the District, and neither the City, the State nor any of its political subdivisions, other than the District, is liable therefor.*

*The historical data and results presented in the tables that follow may differ materially from future results as a result of economic or other factors. For more information on the impact of the COVID-19 pandemic, see “SECURITY FOR THE BONDS – Disclosure Relating to COVID-19 Pandemic” herein. See also references to COVID-19 in the section entitled “PROPERTY TAXATION”, and in APPENDIX A under the heading “DISTRICT GENERAL INFORMATION” and “STATE FUNDING OF EDUCATION; RECENT STATE BUDGETS.”*

#### **General**

**The City.** The District encompasses a total area of approximately 180 square miles in the City of San José (the “**City**”), in the northeast portion of Santa Clara County (the “**County**”). The District’s boundaries include an area of the City of San José extending from the Milpitas border in the north to the Coyote Narrows in the south and from the Diablo Mountain Range in the east to the Guadalupe River in the west.

The City is the oldest city in the State. From a former rich agricultural setting, San José has become the capital of the innovative, high-technology based Silicon Valley - so named for the principal material used in producing semiconductors. During the 1980s and 1990s the City experienced an expansion in manufacturing, service, retail and tourism industries. With the dot-com collapse in the early 2000s, Silicon Valley was one of the first and most deeply impacted regions in the nation but has since recovered.

**The County.** The County covers an area of over 1,300 square miles and is located south of the San Francisco Bay in northern California. There are two distinct valleys in the County, which are referred to as North County and South County. South County has more of an agricultural base and is comprised of only two cities, twenty miles apart from each other. As a contrast, North County is densely populated, heavily industrialized and extensively urbanized. This part of the County is comprised of 13 cities, each adjacent to another. Due to its high concentration of high-technology industries, the northwestern portion of North County is commonly referred to as “Silicon Valley”. Several small lakes and reservoirs are scattered across the County and the highest peak can be found in San José at Mount Hamilton with an elevation of 4,213 feet. Several major highways serve the County, including Highway 101 providing access to San Francisco and Los Angeles.

## Population

The most recent estimate of the County's population at January 1, 2022 was 1,894,783 persons according to the State Department of Finance. The City has an estimated population of 976,482 persons at January 1, 2022. The table below shows population estimates for the cities in the County for the last five years, as of January 1.

**SANTA CLARA COUNTY**  
**Population Estimates**  
**Calendar Years 2018 through 2022**  
**(As of January 1<sup>st</sup>)**

<b>Area</b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>
Campbell	41,748	41,977	43,886	43,086	42,833
Cupertino	59,784	59,436	60,557	59,884	59,610
Gilroy	56,030	56,635	59,975	59,396	59,269
Los Altos	31,006	30,871	31,667	31,651	31,526
Los Altos Hills	8,422	8,438	8,503	8,414	8,400
Los Gatos	30,643	30,501	33,566	33,193	33,062
Milpitas	74,762	75,796	82,014	80,287	80,839
Monte Sereno	3,535	3,633	3,489	3,458	3,488
Morgan Hill	44,773	45,745	45,447	46,626	46,451
Mountain View	80,104	80,986	82,173	83,128	83,864
Palo Alto	68,482	68,272	68,500	67,422	67,473
<b>San José</b>	<b>1,045,854</b>	<b>1,043,617</b>	<b>1,015,826</b>	<b>991,144</b>	<b>976,482</b>
Santa Clara	126,374	125,908	128,110	129,122	130,127
Saratoga	31,046	30,940	31,204	30,772	30,667
Sunnyvale	152,935	154,074	155,898	155,326	156,234
Balance Of County	88,081	87,904	85,444	84,784	84,458
Incorporated	1,855,498	1,856,829	1,850,815	1,822,909	1,810,325
<b>County Total</b>	<b>1,943,579</b>	<b>1,944,733</b>	<b>1,936,259</b>	<b>1,907,693</b>	<b>1,894,783</b>

Source: State Department of Finance estimates.

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## Employment and Industry

The District is part of the San José-Sunnyvale-Santa Clara Metropolitan Statistical Area (“MSA”), which is comprised of Santa Clara and San Benito Counties. The unemployment rate in the San José-Sunnyvale-Santa Clara MSA was 3.0% in February 2022, down from a revised 3.4% in January 2022, and below the year-ago estimate of 6.0%. This compares with an unadjusted unemployment rate of 4.8% for California and 4.1% for the nation during the same period. The unemployment rate was 6.1% in San Benito County, and 2.9% in Santa Clara County.

The table below provides information about employment rates and employment by industry type for the County for calendar years 2017 through 2021.

**SAN JOSÉ-SUNNYVALE-SANTA CLARA MSA**  
**(San Benito and Santa Clara Counties)**  
**Annual Averages Civilian Labor Force, Employment and Unemployment,**  
**Employment by Industry**  
**(March 2021 Benchmark)**

	2017	2018	2019	2020	2021
Civilian Labor Force <sup>(1)</sup>	1,067,900	1,073,500	1,082,400	1,054,300	1,045,600
Employment	1,032,500	1,044,200	1,054,100	977,500	995,700
Unemployment	35,400	29,300	28,300	76,800	49,900
Unemployment Rate	3.3%	2.7%	2.6%	7.3%	4.8%
<u>Wage and Salary Employment:</u> <sup>(2)</sup>					
Agriculture	5,800	5,800	5,600	5,300	5,000
Mining and Logging	200	200	200	200	200
Construction	49,300	49,900	53,000	50,100	51,800
Manufacturing	166,700	171,900	171,900	168,300	169,200
Wholesale Trade	33,500	32,200	31,400	29,200	28,300
Retail Trade	85,800	85,700	83,100	73,100	74,500
Transportation, Warehousing, Utilities	15,400	15,800	16,100	15,800	16,500
Information	85,300	92,100	100,600	105,900	106,900
Finance and Insurance	21,600	21,600	22,000	22,900	23,400
Real Estate and Rental and Leasing	14,500	15,200	15,900	15,100	14,800
Professional and Business Services	236,000	236,200	243,100	237,500	244,400
Educational and Health Services	171,800	176,200	178,700	172,700	178,100
Leisure and Hospitality	103,400	105,700	107,500	73,100	79,200
Other Services	28,900	28,900	28,900	22,100	22,300
Federal Government	10,200	9,900	10,000	10,700	10,400
State Government	6,800	7,100	6,900	7,000	6,900
Local Government	78,600	79,700	80,400	76,300	75,900
Total, All Industries <sup>(3)</sup>	1,113,800	1,134,100	1,155,400	1,085,200	1,107,800

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

## Major Employers

The following table shows the major employers in the County as of May 2022, in alphabetical order without regard to the number of employees.

### SANTA CLARA COUNTY Major Employers (Listed Alphabetically)

Employer Name	Location	Industry
Adobe Inc	San Jose	Publishers-Computer Software (mfrs)
Advanced Micro Devices Inc	Santa Clara	Semiconductor Devices (mfrs)
Alphabet Inc	Mountain View	Internet Search Engines
Apple Inc	Cupertino	Computers-Electronic-Manufacturers
Applied Materials Inc	Santa Clara	Semiconductor Manufacturing Equip (mfrs)
California's Great America	Santa Clara	Amusement & Theme Parks
Christopher Ranch LLC	Gilroy	Garlic (mfrs)
Cisco Systems Inc	San Jose	Computer Peripherals (mfrs)
Ebay Inc	San Jose	Internet & Catalog Shopping
Flextronics International	Milpitas	Semiconductor Devices (mfrs)
Fujitsu Laboratories of Amer	Sunnyvale	Laboratories-Research & Development
Intel Corp	Santa Clara	Semiconductor Devices (mfrs)
Intuitive Surgical Inc	Sunnyvale	Physicians & Surgeons Equip & Supls-Mfrs
Lockheed Martin Space Systems	Sunnyvale	Satellite Equipment & Systems-Mfrs
Lucile Packard Children's Hosp	Palo Alto	Hospitals
Lumileds	San Jose	Lighting Fixtures-Supplies & Parts-Mfrs
Maxim Integrated Products Inc	San Jose	Printed & Etched Circuits-Mfrs
NASA	Mountain View	Federal Government-Space Research/Tech
Netapp Inc	San Jose	Computer Storage Devices (mfrs)
Nvidia Corp	Santa Clara	Computer Software
Prime Materials	San Jose	Semiconductors & Related Devices (mfrs)
SAP Center	San Jose	Stadiums Arenas & Athletic Fields
Stanford School of Medicine	Stanford	Schools-Medical
Super Micro Computer Inc	San Jose	Computers-Electronic-Manufacturers
Va Palo Alto Health Care Syst	Palo Alto	Government-Specialty Hosp Ex Psychiatric

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2022 2nd Edition.

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## Effective Buying Income

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

The following table summarizes the median household effective buying income for the City, the County, the State of California, and the United States for the years 2018 through 2022.

**CITY OF SAN JOSÉ, SANTA CLARA COUNTY, THE STATE OF CALIFORNIA  
AND THE UNITED STATES  
Median Household Effective Buying Income  
as of January 1, 2018 through 2022**

<b>Year</b>	<b>Area</b>	<b>Total Effective Buying Income (000's Omitted)</b>	<b>Median Household Effective Buying Income</b>
2018	City of San José	\$37,671,248	\$80,173
	Santa Clara County	85,859,495	88,243
	California	1,113,648,181	59,646
	United States	8,640,770,229	50,735
2019	City of San José	\$40,371,265	\$85,357
	Santa Clara County	91,332,099	92,773
	California	1,183,264,399	62,637
	United States	9,017,967,563	52,841
2020	City of San José	\$43,225,838	\$90,810
	Santa Clara County	97,710,060	98,882
	California	1,243,564,816	65,870
	United States	9,487,165,436	55,303
2021	City of San José	\$45,634,915	\$94,097
	Santa Clara County	103,006,380	103,458
	California	1,290,894,604	67,956
	United States	9,809,944,764	56,790
2022	City of San José	\$50,712,239	\$106,889
	Santa Clara County	113,347,038	118,652
	California	1,452,426,153	77,058
	United States	11,208,582,541	64,448

*Source: The Nielsen Company (US), Inc for 2018; Claritas, LLC for 2019 through 2022.*

## Commercial Activity

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table.

Total taxable sales during calendar year 2021 in the City were reported to be \$20,459,774,652, a 17.34% increase over the total taxable sales of \$17,436,700,815 reported during calendar year 2020.

**CITY OF SAN JOSÉ**  
**Annual Taxable Transactions**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in Thousands)**

	<b>Retail Stores</b>		<b>Total All Outlets</b>	
	<b>Number of Permits</b>	<b>Taxable Transactions</b>	<b>Number of Permits</b>	<b>Taxable Transactions</b>
2017	14,214	\$10,558,372	22,997	\$15,054,364
2018	14,554	11,556,068	24,323	16,428,568
2019	14,592	12,316,652	24,654	17,107,117
2020	15,126	13,362,383	25,671	17,490,612
2021	13,901	15,701,346	23,747	20,459,775

*Source: State Department of Tax and Fee Administration.*

Total taxable sales during calendar year 2021 in the County were reported to be \$51,921,606,978, a 14.55% increase over the total taxable sales of \$46,444,650,255 reported during calendar year 2020.

**SANTA CLARA COUNTY**  
**Annual Taxable Transactions**  
**Number of Permits and Valuation of Taxable Transactions**  
**(Dollars in Thousands)**

	<b>Retail Stores</b>		<b>Total All Outlets</b>	
	<b>Number of Permits</b>	<b>Taxable Transactions</b>	<b>Number of Permits</b>	<b>Taxable Transactions</b>
2017	30,263	\$24,862,883	50,519	\$42,805,399
2018	30,266	26,885,138	50,812	45,353,074
2019	30,024	27,836,133	52,994	46,887,483
2020	30,969	27,211,500	55,395	46,005,925
2021	28,365	31,373,360	51,015	52,921,607

*Source: State Department of Tax and Fee Administration.*

## Construction Activity

Provided below are the building permits and valuations for the City and County for calendar years 2016 through 2020. Data for calendar year 2021 is not yet available.

<b>CITY OF SAN JOSÉ</b> <b>Total Building Permit Valuations</b> <b>(Valuations in Thousands)</b>					
	2016	2017	2018	2019	2020
<b>Permit Valuation</b>					
New Single-family	\$57,014.8	\$40,495.6	\$48,189.7	\$86,009.4	\$75,061.7
New Multi-family	266,798.6	449,627.7	302,314.0	250,006.5	107,845.9
Res. Alterations/Additions	<u>111,084.2</u>	<u>95,990.3</u>	<u>116,587.4</u>	<u>146,065.7</u>	<u>111,917.7</u>
Total Residential	\$434,897.6	\$586,113.6	\$467,091.1	\$482,081.6	\$294,825.3
 New Commercial	 \$636,273.6	 \$436,657.8	 \$217,680.7	 \$781,279.6	 \$1,055,959.7
New Industrial	5,482.5	8,764.5	0.0	0.0	3,126.3
New Other	36,676.1	5,913.2	26,398.1	42,133.9	14,961.4
Com. Alterations/Additions	<u>797,741.2</u>	<u>719,142.8</u>	<u>550,465.6</u>	<u>694,290.4</u>	<u>815,245.1</u>
Total Nonresidential	\$1,476,173.4	\$1,170,478.3	\$794,544.4	\$1,517,703.9	1,889,292.5
 <b><u>New Dwelling Units</u></b>					
Single Family	201	176	302	566	500
Multiple Family	<u>1,871</u>	<u>2,903</u>	<u>2,607</u>	<u>1,827</u>	<u>936</u>
TOTAL	2,072	3,079	2,909	2,393	1,436

Source: Construction Industry Research Board, Building Permit Summary

<b>SANTA CLARA COUNTY</b> <b>Total Building Permit Valuations</b> <b>(Valuations in Thousands)</b> <b>Calendar Years 2016 through 2020</b>					
	2016	2017	2018	2019	2020
<b>Permit Valuation</b>					
New Single-family	\$660,301.6	\$732,652.1	\$728,590.6	\$693,032.6	\$465,531.8
New Multi-family	564,761.0	1,027,651.8	1,098,643.3	567,726.7	384,856.1
Res. Alterations/Additions	<u>484,820.1</u>	<u>547,991.7</u>	<u>588,024.6</u>	<u>555,483.1</u>	<u>314,179.3</u>
Total Residential	\$1,709,882.7	\$2,308,295.6	\$2,415,258.5	\$1,816,242.4	\$1,164,567.2
 New Commercial	 \$2,327,643.2	 \$1,301,723.2	 \$1,962,366.5	 \$2,664,298.3	 \$1,216,184.5
New Industrial	44,268.9	118,567.1	32,080.0	41,875.8	72,481.3
New Other	282,966.1	152,176.4	120,557.4	273,529.1	145,437.8
Com. Alterations/Additions	<u>2,072,862.8</u>	<u>1,786,849.8</u>	<u>2,017,142.2</u>	<u>2,467,939.0</u>	<u>1,382,406.5</u>
Total Nonresidential	\$4,727,741.0	\$3,359,316.5	\$4,132,146.1	\$5,447,642.2	\$2,816,510.1
 <b><u>New Dwelling Units</u></b>					
Single Family	1,608	2,022	2,011	1,814	1,329
Multiple Family	<u>3,297</u>	<u>6,629</u>	<u>6,342</u>	<u>3,216</u>	<u>2,245</u>
TOTAL	4,905	8,651	8,353	5,030	3,574

Source: Construction Industry Research Board, Building Permit Summary.

## Transportation

The San José area is served by a network of freeways providing regional, national and international access. U.S. 101, a major north-south highway between San Francisco and Los Angeles, provides access to the deep water seaports at San Francisco and Redwood City, and to air passenger and cargo facilities at Norman Y. Mineta San José International Airport (the “**Airport**”) and San Francisco International Airport. Interstate 880 connects San José with the Oakland International Airport and the Port of Oakland. Interstates 280 and 680 provide access to the peninsula and eastern regions of the San Francisco Bay Area, respectively, and State Route 17 serves to connect San José with the Pacific Coast at Santa Cruz. Additional freeways serving the local area are State Routes 85, 87 and 237. During the past two decades, approximately \$1.8 billion has been invested by the State and the County to expand and improve the area freeway system.

The light rail transit system operated by the Santa Clara Valley Transportation Authority that connects the northern and southern areas of the City opened in 1989. During 1999 the light rail line was expanded towards the North to serve the cities of Santa Clara, Sunnyvale, and Mountain View. Adding to the existing 30.5-mile light rail system, several expansions to the system are under construction and planned for completion within the next few years. In particular, service along the 6.4-mile Tasman East/Capitol Light Rail Extension from the I-880/Milpitas station in Milpitas to east San José commenced in 2004. Also, the 5.3-mile Vasona Light Rail Extension began service between Downtown San José and Downtown Eastside in January 2006.

The main coast line of the Union Pacific Railroad traverses the City, providing connections to San Francisco, Oakland, Sacramento and Los Angeles. Commuter rail service operates on this line between Gilroy and San Francisco. The Union Pacific Railroad also operates a branch line in the City serving heavy industry.

The Airport is located on approximately 1,000 acres of land approximately two miles north of downtown San José, between the Bayshore Freeway (Highway 101) and Interstate 880. The Airport is a commercial service and general aviation airport and is classified by the FAA as a “medium hub” (an airport that enplanes at least 0.25% but less than 1.0% of the total number of passenger boardings at all commercial service airports in the United States).

## APPENDIX D

### PROPOSED FORM OF OPINION OF BOND COUNSEL

[LETTERHEAD OF JONES HALL]

[Closing Date]

Board of Trustees  
Alum Rock Union Elementary School District  
2930 Gay Avenue  
San Jose, California 95127

**OPINION:**     \$ \_\_\_\_\_ Alum Rock Union Elementary School District  
                              (Santa Clara County, California)  
                              General Obligation Bonds, 2016 Election, Series A

Members of the Board of Trustees:

We have acted as bond counsel to the Alum Rock Union Elementary School District (the "District") in connection with the issuance by the District of \$ \_\_\_\_\_ principal amount of Alum Rock Union Elementary School District (Santa Clara County, California) General Obligation Bonds, 2016 Election, Series A, dated the date hereof (the "Bonds"), under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and a resolution adopted by the Board of Trustees of the District (the "Board") on May 12, 2022 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Bond Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is duly established and validly existing as a school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution.
2. The Bond Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.
3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Santa Clara is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount.

4. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Bonds.

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

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

A Professional Law Corporation

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ \_\_\_\_\_  
**ALUM ROCK UNION  
ELEMENTARY SCHOOL DISTRICT  
(Santa Clara County, California)  
General Obligation Bonds  
2016 Election, Series A**

#### **CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the Alum Rock Union Elementary School District (the “**District**”) in connection with the issuance and delivery of the captioned bonds (the “**Bonds**”). The captioned Bonds are being issued pursuant to a resolution adopted by the Board of Trustees of the District on May 12, 2022 (the “**Resolutions**”). U.S. Bank Trust Company, National Association is initially acting as paying agent for the Bonds (the “**Paying Agent**”). The District hereby covenants and agrees as follows:

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

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

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

“*Annual Report Date*” means the date not later than nine months after the end of each fiscal year of the District (currently March 31).

“*Dissemination Agent*” means, initially, Dale Scott & Company, Inc., or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Paying Agent a written acceptance of such designation.

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

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

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

*“Paying Agent”* means U.S. Bank Trust Company, National Association, San Francisco, California or any successor thereto.

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

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

### **Section 3. Provision of Annual Reports.**

(a) The District shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing not later than March 31, 2023 with the report for the 2021-22 fiscal year, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the District in a timely manner shall provide (or cause the Dissemination Agent to provide) notice to the MSRB, in an electronic format in a form as prescribed by the MSRB, , with a copy to the Paying Agent and Participating Underwriter.

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

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

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

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not



available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, the following information with respect to the most recently completed fiscal year or, if available at the time of filing, the then-current fiscal year:

- (i) assessed valuation of taxable properties in the District for the most recently completed fiscal year, or if available, the current fiscal year;
- (ii) assessed valuation of properties of the top twenty taxpayers for the most recently completed fiscal year, or if available, the current fiscal year;
- (iii) if the District's general obligation bond levies are not included in the County of Santa Clara's Teeter Plan, property tax collection delinquencies for the District for the most recently completed Fiscal Year only if available from the County at the time of filing the Annual Report; and
- (iv) the District's most recently adopted budget or interim report available at the time of filing the Annual Report.

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

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

#### **Section 5. Reporting of Significant Events.**

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

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.

- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.
- (15) Incurrence of a financial obligation (defined in subparagraph (e) below) of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the District obtains knowledge of the occurrence of any of these Listed Events, the District will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the District will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy

Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

(e) For purposes of Section 5(a)(15) and (a)(16), the term “financial obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

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

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

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. Any Dissemination Agent may resign by providing 30 days’ written notice to the District and the Paying Agent.

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Resolutions for amendments to the Resolutions with the consent of holders, or (ii) does not, in the opinion of

nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

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

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

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

**Section 12. Duties, Immunities and Liabilities of Dissemination Agent.**

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

this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

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

Date: \_\_\_\_\_, 2022

**ALUM ROCK UNION ELEMENTARY SCHOOL  
DISTRICT**

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

## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

*Neither the District nor the Paying Agent take any responsibility for the information contained in this Section.*

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

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

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

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

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

4. 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 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.

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

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

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

rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, 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 District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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



## **APPENDIX G**

### **SANTA CLARA COUNTY INVESTMENT POOL INVESTMENT POLICY AND INVESTMENT REPORT**

**APPENDIX H**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**