

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2022

NEW ISSUE
DTC BOOK-ENTRY ONLYS&P Rating: “__”
See “RATING” herein

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



\$_____,000*
Cambrian School District
(Santa Clara County, California)
General Obligation Bonds,
Election of 2020, Series 2022

\$_____,000*
Cambrian School District
(Santa Clara County, California)
2022 General Obligation
Refunding Bonds

DATED: Date of Delivery**DUE: August 1, as shown on the inside cover**

The Cambrian School District (Santa Clara County, California) General Obligation Bonds, Election of 2020, Series 2022 (the “Series 2022 Bonds”) in the aggregate principal amount of \$_____,000* are being issued by the Cambrian School District (the “District”) to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 3, 2020, (ii) fund a deposit to the Debt Service Fund (as defined herein) and (iii) pay certain costs of issuance of the Series 2022 Bonds. The Cambrian School District (Santa Clara County, California) 2022 General Obligation Refunding Bonds (the “Refunding Bonds” and, together with the Series 2022 Bonds, the “Bonds”) are being issued by the District in the aggregate principal amount of \$_____,000* to (i) refund certain outstanding general obligation bonds of the District and (ii) pay certain costs of issuance of the Refunding Bonds. See “PLAN OF FINANCE” herein.

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes levied and collected by the County of Santa Clara against taxable property located within the District’s boundaries. The Board of Supervisors of the County of Santa Clara is empowered and obligated to annually levy and collect *ad valorem* property taxes without limitation as to rate or amount on all taxable property within the boundaries of the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

The Bonds are being issued as current interest bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds mature on August 1 in the years and amounts set forth on the inside cover pages hereof. Interest on the Bonds accrues from the date of delivery and is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2023. The Series 2022 Bonds are subject to redemption prior to maturity. The Refunding Bonds are not subject to redemption prior to maturity. See “THE BONDS—Payment of Principal and Interest” and “—Redemption Provisions” herein.

The Bonds are being issued as fully registered bonds, without coupons, in book-entry form only. When delivered, the Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), acting as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only, and only in authorized denominations as described in this Official Statement. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by Zions Bancorporation, National Association (the “Paying Agent”) to DTC for subsequent disbursement to DTC participants who will remit such payments to the Beneficial Owners. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

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

Maturity Schedule

See Inside Cover

The Bonds are offered when, as, and if issued by the District and received by the Underwriters, subject to approval as to their legality by Parker & Covert LLP, Sacramento, California, Bond Counsel, and subject to certain other conditions. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about August 30, 2022.

This Official Statement is dated _____, 2022.

*Preliminary, subject to adjustment.

The information contained in this Preliminary Official Statement has been deemed by the District to be final as of the date hereof; however, the information contained herein is subject to completion or amendment. These securities may not be sold, nor may offers to buy be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the 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 Schedules

\$ __, __, __, 000*
Cambrian School District
(Santa Clara County, California)
General Obligation Bonds, Election of 2020, Series 2022

Maturity Date August 1	Principal Amount*	Interest Rate	Yield	Price	CUSIP ⁺
2023	\$ __, __, __, 000				132123__
2024	__, __, __, 000				132123__
2029	__, __, __, 000				132123__
2030	__, __, __, 000				132123__
2031	__, __, __, 000				132123__
2032	__, __, __, 000				132123__
2033	__, __, __, 000				132123__
2034	__, __, __, 000				132123__
2035	__, __, __, 000				132123__
2036	__, __, __, 000				132123__
2037	__, __, __, 000				132123__
2038	__, __, __, 000				132123__
2039	__, __, __, 000				132123__
2040	__, __, __, 000				132123__
2041	__, __, __, 000				132123__
2042	__, __, __, 000				132123__
2043	__, __, __, 000				132123__
2044	__, __, __, 000				132123__
2045	__, __, __, 000				132123__
2046	__, __, __, 000				132123__
2047	__, __, __, 000				132123__
2048	__, __, __, 000				132123__
2049	__, __, __, 000				132123__
2050	__, __, __, 000				132123__
2051	__, __, __, 000				132123__
2052	__, __, __, 000				132123__

* Preliminary; subject to adjustment.

⁺CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2022 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services database. Neither the District nor the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

\$ __, __, 000*
Cambrian School District
(Santa Clara County, California)
2022 General Obligation Refunding Bonds

Maturity Date August 1	Principal Amount*	Interest Rate	Yield	Price	CUSIP ⁺
2023	\$ __, __, 000				132123__
2024	__, __, 000				132123__
2025	__, __, 000				132123__

* Preliminary; subject to adjustment.

⁺CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2022 CUSIP Global Services. All rights reserved. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services database. Neither the District nor the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

Use of Official Statement. This Official Statement is submitted with respect to 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 to be construed as a contract between any owner of Bonds and the District or the Underwriters.

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

Rule 15c2-12. For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12”), this Preliminary Official Statement constitutes an “official statement” of the District with respect to the Bonds that has been deemed “final” by the District as of its date except for the omission of no more than the information provided by Rule 15c2-12.

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

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

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

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

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

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

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

\$____,____,000*

**Cambrian School District
(Santa Clara County, California)**

General Obligation Bonds, Election of 2020, Series 2022

\$____,____,000*

**Cambrian School District
(Santa Clara County, California)**

2022 General Obligation Refunding Bonds

District Board of Trustees

Carol Presunka, President
Janet Gillis, Vice President
Donald Rocha, Clerk
Jarod Middleton, Member
Randy Scofield, Member

District Administration

Kristi Schwiebert, Superintendent
John Pappalardo, Ed.D., Chief Financial Officer
Linh Nguyen, Assistant Superintendent of Educational Services
Natalie Gioco, Assistant Superintendent of Personnel Services

Cambrian School District
4115 Jackson Drive
San Jose, California 95124
(408) 377-2103

Municipal Advisor

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Sacramento, California 95814
(916) 444-5100

Bond Counsel

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(916) 245-8677

Paying Agent

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Los Angeles, California 90071
(213) 593-3154

Escrow Agent

U.S. Bank Trust Company, National Association
1 California Street, 10th Floor
San Francisco, CA 94111
(415) 677-3699

* Preliminary; subject to adjustment

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\$ __, __, 000*

**Cambrian School District
(Santa Clara County, California)**

General Obligation Bonds, Election of 2020, Series 2022

\$ __, __, 000*

**Cambrian School District
(Santa Clara County, California)**

2022 General Obligation Refunding Bonds

OFFICIAL STATEMENT

INTRODUCTORY INFORMATION

General

The purpose of this Official Statement, which includes the cover page, inside cover pages, table of contents and attached appendices (the “Official Statement”), is to provide certain information concerning the sale and delivery of the Cambrian School District (Santa Clara County, California) General Obligation Bonds, Election of 2020, Series 2022 issued in the aggregate principal amount of \$ __, __, 000* (the “Series 2022 Bonds”) and the Cambrian School District (Santa Clara County, California) 2022 General Obligation Refunding Bonds issued in the aggregate principal amount of \$ __, __, 000* (the “Refunding Bonds”) and, together with the Series 2022 Bonds, the “Bonds”).

This INTRODUCTORY INFORMATION is not a summary of this Official Statement—it is only a brief description of and guide to this Official Statement. This INTRODUCTORY INFORMATION is qualified by more complete and detailed information contained in this entire Official Statement. A full review of this entire Official Statement should be made by a person interested in investing in the Bonds. The offering of the Bonds to potential investors is made only by means of this entire Official Statement.

The District

Cambrian School District (the “District”) is a political subdivision of the State of California (the “State”) located in the County of Santa Clara (the “County”). Encompassing approximately eight square miles, the District serves a population of approximately 32,200 people residing in the western portion of the City of San Jose (the “City”) as well as portions of the City of Campbell and the Town of Los Gatos. The District operates four elementary schools serving transitional kindergarten through fifth grade, three of which are charter schools, one elementary school serving transitional kindergarten through eighth grade, and one charter middle school serving sixth through eighth grade, in total providing education to approximately 2,980 students. A five-member elected Board of Trustees (the “District Board”) governs the District. See “THE DISTRICT” and “DISTRICT FINANCIAL INFORMATION” herein.

Purpose of Bonds

The Series 2022 Bonds are being issued by the District to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 3, 2020, (ii) fund a deposit to the Debt Service Fund (as defined herein) to pay debt service on general obligation bonds of the District and (iii) pay certain costs of issuance of the Series 2022 Bonds.

The Refunding Bonds are being issued by the District to (i) refund the Cambrian School District (Santa Clara County, California) 2013 General Obligation Refunding Bonds dated September 13, 2013 (the “2013 Refunding Bonds”) maturing on July 1, 2023 through July 1, 2026, inclusive (the “Refunded Bonds”) and (ii) pay certain costs of issuance of the Refunding Bonds.

* Preliminary; subject to adjustment

See “THE BONDS—Authority for Issuance” and “PLAN OF FINANCE” herein.

Authority for Issuance

The Series 2022 Bonds are being issued by the District under and pursuant to the California Constitution (the “State Constitution”), certain provisions of the California Government Code (the “Government Code”) and the California Education Code (the “Education Code”), as applicable, a resolution adopted by the District Board on August 4, 2022 (the “District Resolution”) and a paying agent agreement between the District and Zions Bancorporation, National Association (the “Paying Agent”) dated as of April 1, 2021, as supplemented by a first supplemental paying agent agreement dated as of August 1, 2022 between the District and the Paying Agent (the “Series 2022 Paying Agent Agreement”).

The Refunding Bonds are being issued by the District under and pursuant to certain provisions of the Government Code, the District Resolution and a paying agent agreement by and between the District and the Paying Agent dated as of August 1, 2022 (the “Refunding Paying Agent Agreement” and, together with the Series 2022 Paying Agent Agreement, the “Paying Agent Agreements”).

See “THE BONDS—Authority for Issuance” herein.

Description of the Bonds

The Bonds are being issued as fully registered bonds, without coupons, in book-entry form only. When delivered, the Bonds will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”). So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by the Paying Agent to DTC for subsequent disbursement to DTC participants who will remit such payments to the beneficial owners of the Bonds (the “Beneficial Owners”). See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

The Bonds are being issued as current interest bonds in denominations of \$5,000 principal amount or any integral multiple thereof. The Bonds are dated their date of delivery and mature on August 1 in each of the years and in the amounts set forth on the inside cover pages hereof. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year, commencing February 1, 2023. Interest on the Bonds is calculated on the basis of a 360-day year comprised of 12 months of 30 days each. See “THE BONDS—Payment of Principal and Interest” herein.

The Series 2022 Bonds are subject to redemption prior to maturity. The Refunding Bonds are not subject to redemption prior to maturity. See “THE BONDS—Redemption Provisions” herein.

Source of Payment for the Bonds

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes, levied pursuant to the provisions of the State Constitution and other State law, which the Board of Supervisors of the County of Santa County (the “County Board”) is empowered and obligated to annually levy and collect, without limitation as to rate or amount, on all taxable property within the boundaries of the District (except for certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Bonds, and from amounts on deposit in the Debt Service Fund (as defined herein). See “SECURITY AND SOURCE OF PAYMENT” herein.

Tax Matters

In the opinion of Parker & Covert LLP, Sacramento, California (“Bond Counsel”), based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “LEGAL MATTERS—Tax Matters” herein. The form of the proposed opinion of Bond Counsel relating

to the Bonds is included with this Official Statement. See “APPENDIX C—FORM OF OPINION OF BOND COUNSEL” attached hereto.

Continuing Disclosure

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

Professionals Involved

Certain proceedings in connection with the sale and delivery of the Bonds are subject to the approving legal opinion of Parker & Covert LLP, Sacramento, California, as Bond Counsel to the District. Government Financial Strategies inc., Sacramento, California, is acting as municipal advisor (the “Municipal Advisor”) to the District with respect to the Bonds. See “MUNICIPAL ADVISOR” herein. Zions Bancorporation, National Association will act as paying agent with respect to the Bonds. U.S. Bank Trust Company, National Association will act as escrow agent (the “Escrow Agent”) with respect to the Refunded Bonds. Bond Counsel, the Paying Agent and the Escrow Agent will receive compensation contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement may be considered current only as of its date that has been made a part of the cover page hereof, and the information contained herein is subject to change. A description of the Bonds and the District, together with summaries of certain provisions of the District Resolution, the Paying Agent Agreement and other legal documents related to the Bonds (collectively, the “Legal Documents”) are included in this Official Statement. Such summaries do not purport to be comprehensive or definitive, and all references made herein to the Legal Documents approved by the District are qualified in their entirety by reference to such documents, and all references made herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Legal Documents.

Interested parties may obtain copies of the Legal Documents, audited financial statements, annual budgets, or other information which is generally made available to the public by contacting Cambrian School District, 4115 Jacksol Drive, San Jose, California 95124, telephone (408) 377-2103, Attention: Chief Financial Officer, or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

THE BONDS

Purpose

The Series 2022 Bonds are being issued by the District to (i) finance certain of the school facilities projects set forth in the ballot measure approved by the District’s voters at an election held on November 3, 2020, (ii) fund a deposit to the Debt Service Fund (as defined herein) to pay debt service on general obligation bonds of the District and (iii) pay certain costs of issuance of the Series 2022 Bonds.

The Refunding Bonds are being issued by the District to (i) refund the 2013 Refunding Bonds maturing on July 1, 2023 through July 1, 2026, inclusive, and referred to as the “Refunded Bonds” and (ii) pay certain costs of issuance of the Refunding Bonds.

See “— Authority for Issuance” and “PLAN OF FINANCE” herein.

Authority for Issuance

Series 2022 Bonds. The Series 2022 Bonds are being issued by the District in accordance with the provisions of Article XIII A, Section 1 of the State Constitution, the provisions of Government Code Section 53506 et seq., and all laws amendatory to or supplemental thereof, certain provisions of the Education Code, including Section 15264 et seq., and all laws amendatory to or supplemental thereof, and pursuant to the provisions of the District Resolution and the Paying Agent Agreement.

Pursuant to provisions of State law, the District Board adopted a resolution calling for an election to authorize the issuance of \$88.0 million in aggregate principal amount of general obligation bonds for authorized school purposes. On November 3, 2020, at an election duly held pursuant to State law, more than 55 percent of the votes received from qualified voters within the boundaries of the District approved “Measure R” (the “2020 Authorization”), which is summarized as follows:

“To repair/ upgrade aging classrooms, science labs, school facilities, and instructional technology to support student achievement in math, science, engineering, technology, and arts, repair deteriorating roofs, plumbing, electrical, remove asbestos/lead pipes where needed, and upgrade classrooms/ computers to keep pace with technology, shall the Cambrian School District measure authorizing \$88,000,000 in bonds at legal rates be adopted, levying 3 cents/ \$100 assessed value (\$5,080,000 annually) while bonds are outstanding, with citizen oversight / all money staying local?”

The County of Santa Clara Registrar of Voters certified the results of the Measure R election as follows:

**2020 Authorization
Cambrian School District**

<u>Yes Votes</u>	<u>No Votes</u>
9,234 (61.2%)	5,862 (38.8%)

Source: County of Santa Clara Registrar of Voters.

On April 8, 2021, the District issued the first series of bonds under the 2020 Authorization, the Cambrian School District (Santa Clara County, California) General Obligation Bonds, Election of 2020, Series 2021 (the “2021 Bonds”) in the aggregate principal amount of \$15,000,000. The Series 2022 Bonds represent the second series of general obligation bonds to be issued under the 2020 Authorization. Upon the issuance of the Series 2022 Bonds, the District will have \$____,____,____ of authorized but unissued bonds remaining under the 2020 Authorization*. See “DISTRICT FINANCIAL INFORMATION— Long-Term Borrowings” herein.

The Refunding Bonds. The Refunding Bonds are being issued by the District in accordance with the provisions of Government Code Sections 53550 and 53580 et seq., and all laws amendatory to or supplemental thereof, and pursuant to the provisions of the District Resolution and Refunding Paying Agent Agreement. The District may issue bonds payable from ad valorem property taxes without a vote of the electors solely in order to refund other outstanding general obligation bonds which were originally approved by such a vote, provided that the total net interest cost to maturity plus the principal amount of the refunding bonds does not exceed the total net interest cost to maturity plus the principal amount of the bonds being refunded.

Form and Initial Registration

The Bonds will be initially executed and delivered as one fully registered bond for each maturity of each series in a denomination corresponding to the total principal amount represented by the series of Bonds payable on such date, without coupons, in the name of Cede & Co., as nominee of DTC, acting as securities depository for the Bonds. Purchases of Bonds under the DTC book-entry system must be made by or through a DTC participant in the principal amount of \$5,000 or integral

* Preliminary; subject to adjustment

multiples thereof for each maturity, and ownership interests in Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Bonds, Beneficial Owners will not receive physical certificates representing their ownership interests in the Bonds. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

Pursuant to the Paying Agent Agreements, the Paying Agent will keep and maintain, for and on behalf of the District, books (the “Bond Registers”) for recording the owners of the Bonds (the “Registered Owners”), the transfer and exchange of Bonds, and the payment of the principal of and interest on the Bonds to the Registered Owners. All transfers and exchanges of Bonds will be noted in the Bond Registers.

The person in whose name a Bond is registered on the applicable Bond Register will be regarded as the absolute owner of that Bond for all purposes of the District Resolution and the Paying Agent Agreements. Payment of or on account of the principal of and interest on any Bond will be made only to or upon the order of that person; neither the District nor the Paying Agent will be affected by any notice to the contrary, but the registration may be changed as provided in the District Resolution and the Paying Agent Agreements.

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

Payment of Principal and Interest

The Bonds are dated their date of delivery and mature on August 1 in each of the years and in the amounts set forth on the inside cover pages hereof. The Bonds are issued in denominations of \$5,000 principal amount, or any integral multiple thereof. Interest on the Bonds is calculated on the basis of a 360-day year comprised of 12 months of 30 days each. Interest on the Bonds is payable semiannually on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing February 1, 2023, at the annual interest rates shown on the inside cover pages hereof. Each Bond bears interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is authenticated as of a day during the period after the fifteenth day of the calendar month immediately preceding an Interest Payment Date (the “Regular Record Date”) to that Interest Payment Date, both dates inclusive, in which event it will bear interest from such Interest Payment Date, or (ii) it is authenticated on or before January 15, 2023, in which event it bears interest from its date of delivery, provided that if, at the time of authentication of a Bond, interest is in default thereon, such Bond bears interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

The principal of and interest on the Bonds is payable in lawful money of the United States of America. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made by the Paying Agent to DTC in immediately available funds on the date due for subsequent disbursement to DTC participants who will remit such payments to the Beneficial Owners. See “APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM” attached hereto.

In the event the book-entry system is no longer in use, principal will be payable to the Registered Owner upon surrender thereof at maturity or earlier redemption at the principal office of the Paying Agent, and interest will be payable by check mailed to the Registered Owner thereof at such Registered Owner’s address as it appears on the Bond Register on the Regular Record Date preceding such Interest Payment Date, or, upon the written request of any Registered Owner of \$1,000,000 or more in aggregate principal amount of Bonds who has provided the Paying Agent with wire transfer instructions as of the close of business on the Regular Record Date, by wire transfer to an account within the United States of America. Any interest on any Bond that is payable but is not punctually paid or duly provided for on any Interest Payment Date shall cease to be payable to the Registered Owner on the relevant Regular Record Date. Such defaulted interest will be paid to the person in whose name the Bond is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the District. In the name and at the expense of the District, the Paying Agent will cause notice of the payment of such defaulted interest and the special record date to be mailed, first-class postage prepaid, to each Registered Owner at his address as it appears in the Bond Register not fewer than ten days prior to such special record date.

Redemption Provisions

Optional Redemption. The Series 2022 Bonds maturing on or before August 1, 2030 are not subject to optional redemption prior to maturity. The Series 2022 Bonds maturing on or after August 1, 2031, are subject to redemption, at the option of the

District, as a whole or in part among maturities on such basis as designated by the District and by lot within each maturity, from any source of available funds, on any date on or after August 1, 2030, at a redemption price equal to the principal amount of the Series 2022 Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

The Refunding Bonds are not subject to optional redemption prior to maturity.

[Mandatory Sinking Fund Redemption. The Series 2022 Bond maturing by its term on August 1, 20__ (the “20__ Term Bond”) is subject to mandatory redemption by the District prior to its maturity in part, by lot, from mandatory redemption payments in the following amounts and on the following dates, at the principal amount thereof on the date fixed for redemption without premium, but which amounts will be reduced by the principal amount of such 20__ Term Bond optionally redeemed.

**Mandatory Redemption Payment Schedule
20__ Term Bond**

Mandatory Redemption Date <u>August 1</u>	Mandatory Redemption <u>Payment</u>
20__	\$ __,000
20__	__,000
20__ ¹	__,000

¹Indicates maturity of the \$ __,000 20__ Term Bond.

In the event that a portion of a Term Bond is optionally redeemed in part, the District will provide to the Paying Agent revised schedules of mandatory redemption payments.]

Selection of Series 2022 Bonds for Redemption. In the case of any redemption at the election of the District of less than all the outstanding Series 2022 Bonds, the District will, at least 45 days prior to the date fixed for redemption (unless a shorter notice is satisfactory to the Paying Agent), notify the Paying Agent in writing of such redemption date and of the principal amount of Series 2022 Bonds to be redeemed.

If less than all the outstanding Series 2022 Bonds of any maturity are to be redeemed, not more than 60 days prior to the redemption date, the Paying Agent will select the particular Series 2022 Bonds to be redeemed from the outstanding Series 2022 Bonds of such maturity that have not previously been called for redemption, in minimum amounts of \$5,000 principal amounts, by lot in any manner that the Paying Agent in its sole discretion deems appropriate and fair. For purposes of such selection, each \$5,000 principal amount will be deemed to be a separate Series 2022 Bond.

Notice of Redemption. The Paying Agent will mail notice of redemption not fewer than 30 nor more than 60 days prior to the redemption date by first-class mail, postage prepaid, to the respective Registered Owners of any Series 2022 Bonds designated for redemption at their addresses appearing on the Bond Registers and will file such notice on the same day with the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) website. Each notice of redemption will contain: (i) the date of such notice; (ii) the series designation of the Series 2022 Bonds and date of issue of the Series 2022 Bonds; (iii) the redemption date; (iv) the redemption price; (v) the place or places of redemption (including the name and appropriate address or addresses of the Paying Agent); (vi) the CUSIP number (if any) of the maturity or maturities; and (vii) if less than all of any such maturity, the distinctive certificate numbers of the Series 2022 Bonds of such maturity to be redeemed and, in the case of Series 2022 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each notice will either (i) explicitly state that the proposed redemption is conditioned on there being on deposit on the redemption date sufficient money to pay in full the redemption price of the Series 2022 Bonds or portions thereof to be redeemed; or (ii) be sent only if sufficient money to pay in full the redemption price of the Series 2022 Bonds or portions thereof to be redeemed is on deposit. Each such notice will also (i) state that on said date there will become due and payable on each of said Series 2022 Bonds the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2022 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption; (ii) state that from and after such redemption date interest thereon shall cease to accrue; and (iii) require that such Series 2022 Bonds be then surrendered at the address or addresses of the

Paying Agent specified in the redemption notice. Neither the District nor the Paying Agent has any responsibility for any defect in the CUSIP number that appears on any Series 2022 Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the District nor the Paying Agent is liable for any inaccuracy in such numbers.

Defects in Notice or Procedure. Failure by the Paying Agent to file notice with the MSRB or failure of any Registered Owner to receive notice, or any defect in any such notice, will not affect the sufficiency of the proceedings for redemption. Failure by the Paying Agent to mail notice to any one or more of the respective Registered Owners of any Series 2022 Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Registered Owner or Owners to whom such notice was mailed.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Registered Owners of the Series 2022 Bonds so called for redemption. Any optional redemption and notice thereof will be rescinded if for any reason on the date fixed for redemption moneys are not available for such purpose in an amount sufficient to pay in full on said date the principal of and interest on the Series 2022 Bonds called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Registered Owner of any Series 2022 Bond of notice of such rescission is not a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Deposit of Redemption Price. Prior to any redemption date, the District will deposit with the Paying Agent an amount of money sufficient to pay the redemption price of all the Series 2022 Bonds that are to be redeemed on that date. Such money will be held for the benefit of the persons entitled to such redemption price.

Effect of Redemption. When notice of redemption has been given substantially as provided by the Paying Agent Agreement and moneys for payment of the redemption price of the Series 2022 Bonds called for redemption are held by the Paying Agent, on the redemption date designated in such notice (i) the Series 2022 Bonds so to be redeemed will become due and payable at the redemption price specified in such notice; (ii) interest on such Series 2022 Bonds will cease to accrue; (iii) such Series 2022 Bonds will cease to be entitled to any benefit or security under the Paying Agent Agreement; and (iv) the Registered Owners of such Series 2022 Bonds will have no rights in respect thereof except to receive payment of said redemption price. Upon surrender of any such Series 2022 Bond for redemption in accordance with said notice, such Series 2022 Bond will be paid by the Paying Agent at the redemption price.

Bonds Redeemed in Part. Upon surrender of any Series 2022 Bond redeemed in part only, the District will execute and the Paying Agent will authenticate, if required, and deliver to the Registered Owner thereof, at the expense of the District, a new Series 2022 Bond or Bonds of the same series of authorized denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Series 2022 Bond surrendered.

Transfer and Exchange of Bonds

Except as provided below, DTC will be the Registered Owner of all of the Bonds, and the Bonds will be registered in the name of Cede & Co., as nominee for DTC. The Paying Agent and the District may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for all purposes of the District Resolution and the Paying Agent Agreement, and neither the Paying Agent nor the District will be affected by any notice to the contrary. The Paying Agent and the District have no responsibility or obligation to any depository system participant, any person claiming to be a Beneficial Owner, or any other person not shown on the Bond Register as being a Registered Owner, with respect to the accuracy of any records maintained by DTC or any DTC participant or the payment by DTC or any DTC participant of any amount with respect to the principal of or interest on the Bonds. The District will cause to be paid all principal of and interest on the Bonds only to DTC, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to the principal of and interest on the Bonds to the extent of the sum or sums so paid. Except under the conditions noted below, no person other than DTC will receive a Bond. See "APPENDIX E—DTC BOOK-ENTRY ONLY SYSTEM" attached hereto.

Registered ownership of Bonds issued in book-entry form, or any portions thereof, may not be transferred except: (i) to any successor of DTC or its nominee, or to any substitute depository designated pursuant to clause (ii) below (a "substitute depository"); provided that any successor of DTC or substitute depository must be qualified under any applicable laws to

provide the service proposed to be provided by it; (ii) to any substitute depository upon (a) the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or (b) a determination by the District that DTC or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository must be qualified under any applicable laws to provide the services proposed to be provided by it; or (iii) to any person as provided in the Paying Agent Agreement and summarized below, upon (a) the resignation of DTC or its successor (or substitute depository or its successor) from its functions as depository, or (b) a determination by the District that it is in the best interests of the District to remove DTC or its successor (or any substitute depository or its successor) from its function as depository.

If the book-entry system as described herein is no longer used with respect to the Bonds, the provisions in the Paying Agent Agreement, summarized below, will govern the transfer and exchange of Bonds.

Upon surrender of a Bond for transfer at the Paying Agent's office, the District will execute and, if required, the Paying Agent will authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same series, tenor, and maturity and for an equivalent aggregate principal amount. Bonds may be exchanged for an equivalent aggregate principal amount of Bonds of other authorized denominations of the same series, tenor, and maturity upon surrender of the Bonds for exchange at the Paying Agent's office. Upon surrender of Bonds for exchange, the District will execute and, if required, the Paying Agent will authenticate and deliver the Bonds that the holder making the exchange is entitled to receive. Every Bond presented or surrendered for transfer or exchange must be accompanied by a written instrument of transfer, in a form satisfactory to the Paying Agent, that is duly executed by the Registered Owner or by his attorney duly authorized in writing. All fees and costs of any transfer or exchange of Bonds will be paid by the holder requesting such transfer or exchange. All Bonds issued upon any transfer or exchange of Bonds will be the valid obligations of the District, evidencing the same debt, and entitled to the same security and benefits under the Paying Agent Agreement, as the Bonds surrendered upon such transfer or exchange. All Bonds surrendered upon any exchange or transfer will be promptly cancelled by the Paying Agent. The Paying Agent is not required to transfer or exchange (i) Bonds during the period established by the Paying Agent for the selection of Bonds for redemption; or (ii) any Bond that has been selected for redemption in whole or in part, except the unredeemed portion of such Bond selected for redemption in part, from and after the day that such Bond has been selected for redemption in whole or in part.

Defeasance

Upon the deposit with the Paying Agent, escrow agent, or other fiduciary, at or before maturity, of money or Defeasance Securities (as defined herein) in the necessary amount as provided in the Paying Agent Agreements 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 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, terminate, and be completely discharged, except that thereafter (i) the Registered Owner thereof will be entitled to payment of the principal amount or redemption price 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, escrow agent, or other fiduciary for their payment; and (ii) the Registered Owner thereof will retain its rights of transfer or exchange of Bonds. Defeasance Securities means (i) cash; (ii) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America; (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America; (iv) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or (v) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

Unclaimed Moneys

Subject to applicable escheatment laws, any moneys held by or on behalf of the Paying Agent for the payment of the principal amount or redemption price of or interest on any Bonds and remaining unclaimed for three years after the date when such Bonds have become due and payable (whether at maturity or upon call for redemption), if such moneys were so held at such date, or three years after the date of deposit of such moneys if deposited after the date when such Bonds became due and payable, will be transferred to the Debt Service Fund (as defined herein) for payment of general obligation bonds of the

District payable from that fund; or, if no such bonds of the District are at such time outstanding, the moneys will be transferred to the general fund of the District (the "General Fund").

Paying Agent

Zions Bancorporation, National Association will act as the bond registrar, authenticating agent, paying agent and transfer agent for the Bonds unless and until replaced by the District with a successor paying agent as described in the Paying Agent Agreement. As long as Cede & Co or a successor nominee of DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Paying Agent will send any notice to Registered 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 any action premised on such notice. The Paying Agent, the District and the Underwriters have no responsibility or liability for any aspects of the records relating to, or payments made on account of, beneficial ownership, or for maintaining, supervising, or reviewing any records relating to beneficial ownership of interests in the Bonds.

PLAN OF FINANCE

Application and Investment of Bond Proceeds

Series 2022 Bonds. A portion of the proceeds of the sale of the Series 2022 Bonds, exclusive of any premium, will be transferred to the County of Santa Clara Director of Finance (the "County Director of Finance") for deposit in the Cambrian School District, General Obligation Bonds, Election of 2020 Building Fund (the "Building Fund") established by the District and held in the County of Santa Clara treasury (the "County Treasury") in accordance with Education Code Section 15146(g). Moneys deposited in the Building Fund will be accounted for separately from all other District funds and used for the purpose for which the Series 2022 Bonds are authorized. Interest earned on moneys held in the Building Fund will be retained in the Building Fund and used for the purposes thereof. Any proceeds of the sale of the Series 2022 Bonds deposited in the Building Fund remaining after all the purposes and objectives contained in 2020 Authorization have been accomplished will be transferred to the Debt Service Fund.

A portion of the proceeds of the sale of the Series 2022 Bonds, exclusive of any premium, will be transferred to the Paying Agent for deposit into a costs of issuance fund (the "Series 2022 Costs of Issuance Fund") to pay costs associated with the issuance of the Series 2022 Bonds. Any proceeds of the sale of the Bonds deposited in the Series 2022 Costs of Issuance Fund not needed to pay costs of issuance of the Series 2022 Bonds will be transferred by the Paying Agent to the County Director of Finance for deposit in the Building Fund.

The premium, if any, from the sale of the Series 2022 Bonds will be transferred to the County Director of Finance for deposit in the Cambrian School District General Obligation Bonds Debt Service Fund (the "Debt Service Fund") maintained by the County Director of Finance in the County Treasury pursuant to Education Code Section 15251 to be applied to the payment of principal of and interest on general obligation bonds of the District including the Series 2022 Bonds and the Refunding Bonds. Funds in the Debt Service Fund are irrevocably pledged for the payment of the principal of and interest on general obligation bonds of the District when and as the same fall due. Any amounts in the Debt Service Fund not needed for the payment of debt service on the Series 2022 Bonds will be used to pay other general obligation bonds of the District or, if there are no other general obligation bonds of the District outstanding, will be transferred to the General Fund pursuant to Education Code Section 15234.

Refunding Bonds. A portion of the proceeds of the sale of the Refunding Bonds will be transferred to the Escrow Agent for irrevocable deposit into an escrow fund (the "Escrow Fund") to be created and maintained by the Escrow Agent under an escrow agreement (the "Escrow Agreement") dated as of August 1, 2022, by and between the District and the Escrow Agent. Moneys deposited in the Escrow Fund will be held in cash, uninvested, and will be sufficient for the payment of the interest coming due and payable to the date fixed for redemption plus the redemption amount of the Refunded Bonds.

A portion of the proceeds of the sale of the Refunding Bonds will be transferred to the Paying Agent for deposit into a costs of issuance fund (the "Refunding Costs of Issuance Fund") to pay costs associated with the issuance of the Refunding Bonds. Any proceeds of the sale of the Refunding Bonds deposited in the Refunding Costs of Issuance Fund not needed to pay costs

of issuance of the Refunding Bonds will be transferred by the Paying Agent to the County Director of Finance for deposit in the Debt Service Fund.

Permitted Investments

Under State law, the District is generally required to pay all moneys received from any source into the County Treasury to be held on behalf of the District. All funds held by the County Director of Finance in the Building Fund and the Debt Service Fund are expected to be invested at the sole discretion of the County Director of Finance, on behalf of the District, in such investments as are authorized by Government Code Sections 16429.1, 53601 and 53635 and following, and by the investment policy of the County (the “County Investment Policy”), as either may be amended or supplemented from time to time. See “SANTA CLARA COUNTY TREASURY POOL” herein and “APPENDIX D—SANTA CLARA COUNTY TREASURY INVESTMENT POLICY” attached hereto. Under existing law, amounts in the Building Fund are required to be held in the County Treasury and will be invested in the County of Santa Clara Commingled Investment Pool (the “County Pool”). At no time shall the proceeds of the Series 2022 Bonds be withdrawn by the District for investment outside the County Treasury.

Sources and Uses of Funds

The sources and uses of funds in connection with the sale and delivery of the Series 2022 Bonds are set forth in the following table.

**Sources and Uses of Funds
General Obligation Bonds, Election of 2020, Series 2022**

Sources of Funds	
Par Amount of Series 2022 Bonds	\$
Net Original Issue Premium	
 Total Sources of Funds	 _____ \$
 Uses of Funds	
Building Fund	\$
Debt Service Fund	
Series 2022 Costs of Issuance Fund ¹	
Series 2022 Underwriter’s Discount	
 Total Uses of Funds	 _____ \$

¹The Costs of Issuance Fund will be used to pay costs of issuance of the Series 2022 Bonds, including fees and expenses of Bond Counsel, the Municipal Advisor, the Paying Agent and the rating agency and certain other expenses related to the issuance of the Series 2022 Bonds.

The sources and uses of funds in connection with the sale and delivery of the Refunding Bonds are set forth in the following table.

**Sources and Uses of Funds
2022 General Obligation Refunding Bonds**

Sources of Funds	
Par Amount of Refunding Bonds	\$
Net Original Issue Premium	
Total Sources of Funds	\$
Uses of Funds	
Escrow Fund	\$
Refunding Costs of Issuance Fund ¹	
Refunding Underwriter’s Discount	
Total Uses of Funds	\$

¹The Refunding Costs of Issuance Fund will be used to pay costs of issuance of the Refunding Bonds, including fees and expenses of Bond Counsel, the Municipal Advisor, the Paying Agent, the Escrow Agent, the Verification Agent and the rating agency and certain other expenses related to the issuance of the Refunding Bonds.

Plan of Refunding

The Refunding Bonds are being issued by the District to (i) refund the 2013 Refunding Bonds maturing on July 1, 2023 through July 1, 2026, inclusive, and referred to as the “Refunded Bonds” and (ii) pay certain costs of issuance of the Refunding Bonds.

Causey Demgen & Moore P.C., acting as verification agent (the “Verification Agent”) with respect to the Refunded Bonds, will certify in writing that moneys irrevocably deposited into the Escrow Fund will be sufficient for the payment of the interest coming due and payable to the date fixed for redemption plus the redemption amount of the Refunded Bonds, redeemable on September 16, 2022, at a price of 100 percent of par. Upon such irrevocable deposit, the Refunded Bonds will be deemed paid, defeased and no longer outstanding.

The Refunded Bonds are detailed in the following table.

**Refunded Bonds
Cambrian School District**

Installment Payment Date	Refunded Principal Amount	CUSIP ¹	Redemption Date	Redemption Price as a Percentage of Par
July 1, 2023	\$1,055,000	132123KX7	September 16, 2022	100%
July 1, 2024	1,150,000	132123KY5	September 16, 2022	100
July 1, 2025	1,225,000	132123KZ2	September 16, 2022	100
July 1, 2026	<u>1,315,000</u>	132123LA6	September 16, 2022	100
Total	\$4,745,000			

¹CUSIP numbers are provided for convenience of reference only. Neither the District nor the Underwriters takes any responsibility for the accuracy of such CUSIP numbers.

Debt Service Schedules

Scheduled debt service on the Series 2022 Bonds (assuming no optional redemption) is shown in the following table.

**Debt Service Schedule
General Obligation Bonds, Election of 2020, Series 2022**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Semiannual Debt Service</u>
February 1, 2023			
August 1, 2023			
February 1, 2024			
August 1, 2024			
February 1, 2025			
August 1, 2025			
February 1, 2026			
August 1, 2026			
February 1, 2027			
August 1, 2027			
February 1, 2028			
August 1, 2028			
February 1, 2029			
August 1, 2029			
February 1, 2030			
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August 1, 2043			
February 1, 2044			
August 1, 2044			
February 1, 2045			
August 1, 2045			
February 1, 2046			
August 1, 2046			
February 1, 2047			
August 1, 2047			
February 1, 2048			
August 1, 2048			
February 1, 2049			
August 1, 2049			
February 1, 2050			
August 1, 2050			
February 1, 2051			
August 1, 2051			
February 1, 2052			
August 1, 2052			
Total			

Scheduled debt service on the Refunding Bonds is shown in the table on the following table.

**Debt Service Schedule
2022 General Obligation Refunding Bonds**

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Semiannual Debt Service</u>
February 1, 2023	\$	\$	\$
August 1, 2023			
February 1, 2024			
August 1, 2024			
February 1, 2025			
August 1, 2025			
Total	\$	\$	\$

Upon issuance of the Bonds, scheduled debt service on the District’s outstanding general obligation bond debt (assuming no optional redemption of such general obligation bond debt) is shown in the following table. See “DISTRICT FINANCIAL INFORMATION—Long-Term Borrowings” for more information on the District’s outstanding general obligation bond debt.

**Outstanding General Obligation Bond Debt Service
Cambrian School District**

Year Ended June 30	Outstanding General Obligation Bonds	General Obligation Bonds Election of 2020 Series 2022	2022 General Obligation Refunding Bonds	Total General Obligation Bond Debt Service
2023	\$5,277,106			
2024	4,536,831			
2025	2,583,206			
2026	2,692,331			
2027	2,823,956			
2028	4,474,738			
2029	4,642,269			
2030	4,814,019			
2031	5,000,894			
2032	5,192,019			
2033	5,391,519			
2034	5,603,519			
2035	4,846,894			
2036	4,848,144			
2037	4,368,581			
2038	4,584,963			
2039	4,808,834			
2040	5,031,878			
2041	759,275			
2042	797,056			
2043	833,369			
2044	873,125			
2045	911,644			
2046	958,297			
2047	1,002,931			
2048	1,050,963			
2049	1,102,272			
2050	1,156,741			
2051	1,214,250			
2052	-			
2053	-			
Total	\$92,181,622			

SECURITY AND SOURCE OF PAYMENT

Introduction

The Bonds are general obligation bonds of the District payable from *ad valorem* property taxes levied and collected by the County on all taxable property within the boundaries of the District for the payment of principal of and interest on the Bonds and from amounts on deposit in the Debt Service Fund maintained by the County Director of Finance in the County Treasury pursuant to Education Code Section 15251. The County Board is empowered and obligated to levy *ad valorem* property taxes

upon all property subject to taxation by the District without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates) in order to provide sufficient funds for repayment of principal of and interest on the Bonds when due. Although the County is obligated to levy and collect the *ad valorem* property tax for the payment of the Bonds, the Bonds are not a debt of the County.

The proceeds of such *ad valorem* property taxes, when collected, will be deposited into the Debt Service Fund pursuant to Education Code Section 15251, which *ad valorem* property taxes, together with the amounts on deposit in the Debt Service Fund, are irrevocably pledged pursuant to Government Code Sections 5450 and 5451 to the payment of principal of and interest on the Bonds when and as the same fall due. Pursuant to Government Code 53515 (discussed below), the Bonds are secured by a statutory lien on all revenues received pursuant to the levy and collection of *ad valorem* property taxes for the payment of the Bonds. The County will take all actions necessary to levy such *ad valorem* property taxes in accordance with Education Code Section 15250 *et seq.* and to cause the proceeds from such levy to be deposited into the Debt Service Fund to pay the principal of and interest on the Bonds when due. Interest earned on moneys held in the Debt Service Fund shall be retained in the Debt Service Fund and used for the purposes thereof. At least 30 days prior to each Interest Payment Date (unless otherwise agreed upon by and between the County, the Paying Agent and the District), the Paying Agent will deliver to the County an invoice stating the aggregate amount of interest and principal becoming due and payable on any Bonds on such Interest Payment Date. The District will direct the County Director of Finance to transfer, at least one business day prior to each Interest Payment Date, from the Debt Service Fund to the Paying Agent the amount stated in such invoice for deposit into the funds maintained by the Paying Agent. Failure of the Paying Agent to deliver such invoice shall not affect the District's obligation to pay debt service.

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

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

In no event is the District obligated to pay principal of and interest on the Bonds from any source of funds other than from *ad valorem* property taxes and other amounts on deposit in the Debt Service Fund. However, nothing in the District Resolution prevents the District from making advances of other moneys, howsoever derived, to any use or purpose permitted by law.

Statutory Lien on Ad Valorem Property Tax Revenues

Government Code Section 53515 provides that all general obligation bonds issued and sold by or on behalf of a local agency in the State are secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. The lien automatically arises without the need for any action or authorization by the local agency or its governing board and is valid and binding from the time the bonds are executed and delivered. In addition, the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will automatically attach to the revenues and be effective, binding, and enforceable against the local agency, such as the District, as applicable, its successor, transferees, and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing, or further tax. Government Code Section 53515 applies to the Bonds.

Assessed Valuation of Property

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

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

Shown in the following table are 10 years of the District’s historical assessed valuation. Total secured assessed value includes net local secured assessed value, the assessed value of the secured homeowner exemption and the assessed value on “utility” property as allocated by the SBE. Total unsecured assessed value includes net local unsecured assessed value and the assessed value of the unsecured homeowner exemption.

Historical Total Secured and Unsecured Assessed Valuation Cambrian School District

<u>Year Ended June 30</u>	<u>Total Secured Assessed Value</u>	<u>Total Unsecured Assessed Value</u>	<u>Total Assessed Value</u>	<u>Percentage Change</u>
2013	\$4,411,905,215	\$107,356,119	\$4,519,261,334	--
2014	4,820,126,600	116,851,627	4,936,978,227	9.2%
2015	5,072,993,218	109,999,209	5,182,992,427	5.0
2016	5,422,637,912	111,056,104	5,533,694,016	6.8
2017	5,767,576,182	114,259,101	5,881,835,283	6.3
2018	6,081,805,993	103,707,807	6,185,513,800	5.2
2019	6,466,688,296	106,063,544	6,572,751,840	6.3
2020	6,858,121,893	103,875,073	6,961,996,966	5.9
2021	7,246,264,504	101,986,217	7,348,250,721	5.5
2022	7,590,931,630	124,827,714	7,715,759,344	5.0

Source: County of Santa Clara Assessor.

The District may not issue bonds in excess of 1.25 percent of the assessed valuation of taxable property within its boundaries. Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District’s bonding capacity. The District’s gross bonding capacity in fiscal year 2021-22 is approximately \$96.4 million (bonding capacity for fiscal year 2022-23 will be determined by the equalized roll as of August 20, 2022). Upon issuance of the Bonds, the District will have remaining bonding capacity of approximately

\$__ million*. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES— Article XIII A of the State Constitution” herein.

The remaining tables under this caption “SECURITY AND SOURCE OF PAYMENT” have been prepared by California Municipal Statistics, Inc. They have been included for general information purposes only. The District has not independently verified and does not guarantee the accuracy of the information in such tables.

Shown in the following table is the distribution of total assessed value among the cities and unincorporated areas encompassed by the District for fiscal year 2021-22.

**Assessed Valuation by Jurisdiction
Cambrian School District**

<u>Jurisdiction:</u>	<u>Assessed Valuation in District</u>	<u>Percent of District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>Percent of Jurisdiction in District</u>
City of Campbell	\$2,418,223,598	31.34%	\$12,372,600,892	19.54%
Town of Los Gatos	34,002,322	0.44	\$15,560,344,483	0.22%
City of San Jose	4,946,315,890	64.11	\$215,306,753,933	2.30%
Unincorporated Santa Clara County	<u>317,217,534</u>	<u>4.11</u>	\$20,482,344,953	1.55%
Total District	\$7,715,759,344	100.00%		
Santa Clara County	\$7,715,759,344	100.00%	\$576,319,542,323	1.34%

Source: California Municipal Statistics, Inc.

* Preliminary; subject to adjustment

Shown in the following table is a distribution of taxable real property located in the District by principal purpose for which the parcels are used along with the local secured assessed valuation (excluding homeowners' exemption) and number of parcels for each use for fiscal year 2021-22.

**Assessed Valuation and Parcels by Land Use
Cambrian School District**

	2021-22 <u>Assessed Valuation¹</u>	Percent of <u>Total</u>	Number of <u>Parcels</u>	Percent of <u>Total</u>
<u>Non-Residential:</u>				
Commercial/Office	\$756,137,396	9.96%	293	3.14%
Hospital	175,615,683	2.31	2	0.02
Industrial	234,171,378	3.08	100	1.07
Government/Social/Institutional	19,696,589	0.26	45	0.48
Water Companies and Utilities	<u>42,007,689</u>	<u>0.55</u>	<u>31</u>	<u>0.33</u>
Subtotal Non-Residential	\$1,227,628,735	16.17%	471	5.05%
<u>Residential:</u>				
Single Family Residence	\$4,713,886,835	62.10%	6,551	70.21%
Condominium/Townhouse	919,551,952	12.11	1,768	18.95
Mobile Home	4,882,753	0.06	25	0.27
2-4 Residential Units	266,815,895	3.51	400	4.29
5+ Residential Units/Apartments	<u>439,220,160</u>	<u>5.79</u>	<u>70</u>	<u>0.75</u>
Subtotal Residential	\$6,344,357,595	83.58%	8,814	94.47%
Vacant Parcels	\$18,945,300	0.25%	45	0.48%
Total	\$7,590,931,630	100.00%	9,330	100.00%

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

The following table sets forth the assessed valuation of single-family homes within the District’s boundaries for fiscal year 2021-22.

**Per-Parcel Assessed Valuation of Single-Family Homes
Cambrian School District**

	Number of <u>Parcels</u>	2021-22 <u>Assessed Valuation</u>	Average <u>Assessed Valuation</u>	Median <u>Assessed Valuation</u>
Single-Family Residential	6,551	\$4,713,886,835	\$719,568	\$675,875

<u>2021-22 Assessed Valuation</u>	<u>Number of Parcels¹</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>	<u>Total Valuation</u>	<u>Percent of Total</u>	<u>Cumulative Percent of Total</u>
\$0 - \$99,999	650	9.922%	9.922%	\$48,200,203	1.023%	1.023%
\$100,000 - \$199,999	469	7.159	17.081	67,789,041	1.438	2.461
\$200,000 - \$299,999	459	7.007	24.088	115,755,371	2.456	4.916
\$300,000 - \$399,999	507	7.739	31.827	176,712,582	3.749	8.665
\$400,000 - \$499,999	409	6.243	38.071	184,380,887	3.911	12.576
\$500,000 - \$599,999	428	6.533	44.604	236,631,301	5.020	17.596
\$600,000 - \$699,999	476	7.266	51.870	309,564,986	6.567	24.163
\$700,000 - \$799,999	454	6.930	58.800	340,415,548	7.222	31.385
\$800,000 - \$899,999	499	7.617	66.417	423,703,399	8.988	40.373
\$900,000 - \$999,999	482	7.358	73.775	457,559,226	9.707	50.080
\$1,000,000 - \$1,099,999	345	5.266	79.041	361,436,263	7.667	57.747
\$1,100,000 - \$1,199,999	273	4.167	83.209	313,494,140	6.650	64.398
\$1,200,000 - \$1,299,999	271	4.137	87.345	337,228,917	7.154	71.552
\$1,300,000 - \$1,399,999	255	3.893	91.238	343,316,438	7.283	78.835
\$1,400,000 - \$1,499,999	145	2.213	93.451	210,670,133	4.469	83.304
\$1,500,000 - \$1,599,999	135	2.061	95.512	208,357,689	4.420	87.724
\$1,600,000 - \$1,699,999	97	1.481	96.993	159,889,868	3.392	91.116
\$1,700,000 - \$1,799,999	54	0.824	97.817	94,125,260	1.997	93.113
\$1,800,000 - \$1,899,999	41	0.626	98.443	75,425,011	1.600	94.713
\$1,900,000 - \$1,999,999	31	0.473	98.916	60,357,980	1.280	95.993
\$2,000,000 and greater	<u>71</u>	<u>1.084</u>	100.000	<u>188,872,592</u>	<u>4.007</u>	100.000
Total	6,551	100.000%		\$4,713,886,835	100.000%	

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

Reassessments and Appeals of Assessed Value

State law allows for the appeal of a property’s assessed value by property owners. Appeals may be based on Proposition 8 (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 State Constitution” herein.

Under State law, property owners in the District may apply for a Proposition 8 reduction of their property tax assessment by filing a written application, in form prescribed by the SBE, with a County 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.

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, adjusted for inflation, 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 of the State Constitution.

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.

Proposition 8 reductions may also be unilaterally applied by the County Assessor.

The District can make no predictions as to the changes in assessed values within the boundaries of the District that might result from pending or future appeals of assessed valuation by taxpayers or temporary reductions in assessed valuation of property as allowed under the State Constitution. Any reduction in aggregate District assessed valuation will cause the tax rate necessary to repay the Bonds to increase accordingly. Any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Director of Finance against all taxing agencies receiving tax revenues, including the District.

Risk of Decline in Property Values

Property values could be reduced by factors beyond the District's control, including but not limited to an earthquake, drought, wildfire or a depressed real estate market due to general economic conditions in the County, the region, or the State. Lower assessed values could necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Bonds. Issuance of additional bonds in the future might also cause the tax rate to increase.

Changing Economic Conditions. A depressed real estate market due to general economic conditions in the County, the region, or the State may impact the value of taxable property within the District. The COVID-19 pandemic, or another pandemic, may result in an economic recession or depression that causes a general market decline in property values therefore affecting the value of taxable property within the District. For more information on the impact of the COVID-19 pandemic, see “—The COVID-19 Pandemic” and “THE DISTRICT—Impact of the COVID-19 Pandemic” herein.

Climate Change. The change in the Earth's average atmospheric temperature, generally referred to as “climate change,” is expected to, among other things, increase the frequency of extreme weather events. The direct risks posed by climate change currently include or are expected to include more extreme heat events, increased incidence of wildfire and drought, rising sea levels, changes in precipitation levels, and more intense storms, any of which could negatively impact the assessed value of the property within the District. The District cannot predict the timing, extent, or severity of climate change or the extent to which climate change may impact the value of taxable property within the District.

Drought. In recent years, the State has experienced severe drought conditions. In March 2021, the Secretary of the United States Department of Agriculture designated 50 of 58 counties in the State as primary natural disaster areas due to drought. In April 2021, the Governor of California (the “Governor”) proclaimed a regional drought emergency in two counties due to record drought conditions, and subsequently expanded such proclamation three times until the drought emergency applied to all counties in the State. On July 8, 2021, the Governor signed Executive Order N-10-21 calling on a statewide voluntary reduction in water use of 15 percent from 2020 levels. On October 19, 2021, the Governor expanded the drought emergency proclamation statewide to include the eight previously undeclared counties, and on March 28, 2022, the Governor called on local water suppliers to move to Level 2 of their Water Shortage Contingency Plans, requiring locally-appropriate actions that would conserve water across all sectors. Relatively little of the property in the District is in agricultural use (see the table in “—Assessed Valuation of Property” herein), and assessed values show a net increase over the period of the drought. It is not possible for the District to make any representation regarding the extent to which drought conditions could cause reduced economic activity within the boundaries of the District or the extent to which the drought has had or may have in the future on the value of taxable property within the District.

Earthquake. The District is located in a seismically active region. Active earthquake faults underlie both the District and the surrounding San Francisco Bay Area. Three major earthquake faults that comprise the San Andreas fault system extend through the San Francisco Bay Area, including the San Andreas fault, the Hayward fault, and the Calaveras fault.

In August 2016, the 2014 Working Group on California Earthquake Probabilities (a collaborative effort of the United States Geological Survey, the California Geological Society and the Southern California Earthquake Center) issued a revised report that states there is a 72 percent chance that one or more earthquakes of magnitude 6.7 or larger will occur in the San Francisco Bay Area before the year 2043. Such earthquakes may be very destructive. Property within the District could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the area's economic activity.

Wildfire. In recent years, portions of the State, including the County and adjacent counties, have experienced wildfires that have burned millions of acres and destroyed thousands of homes and structures. Property damage due to wildfire could result in a significant decrease in the assessed value of property in the District. It is not possible for the District to make any representation regarding the extent to which wildfires could cause reduced economic activity within the boundaries of the District or the extent to which wildfires may impact the value of taxable property within the District.

Other. Other possible causes for a reduction in assessed values include the complete or partial destruction of taxable property caused by other natural or manmade disasters, such as flood, fire, drought, toxic dumping, acts of terrorism, etc., or reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable, or religious purposes).

Tax Rates

The State Constitution permits the levy of an *ad valorem* property tax on taxable property not to exceed one percent of the property's full cash value, plus the amount necessary to make annual payments due on general obligation bonds or other indebtedness incurred prior to July 1, 1978, any bonded indebtedness for the acquisition or improvement of real property approved by a two-thirds majority of voters on or after July 1, 1978, and certain bonded indebtedness for school facilities approved by 55 percent of the voters. The County Director of Finance, in its capacity as auditor-controller, computes the additional rate of tax necessary to pay such scheduled debt service and presents the tax rates for all taxing jurisdictions in the County to the County Board, and directs the auditor-controller of any secondary county to place the tax on the secondary county's tax rolls.

The tax rate necessary to pay debt service in a given year largely depends on the net assessed value of taxable property in that year. The net assessed value of taxable property may be affected by several factors, such as a general market decline in property values, reclassification of property to a class exempt from taxation, such as property owned by federal, State and local agencies or property used for certain educational, hospital, charitable or religious purposes, or the destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, drought, toxic dumping, etc. See “—Risk of Decline in Property Tax Values” herein.

One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax on each parcel. The following table shows *ad valorem* property tax rates per \$100 of assessed value for the last five years in a typical tax rate area of the District (TRA 17-015). The fiscal year 2021-22 assessed valuation of TRA 17-015 is \$4,825,228,865, approximately 62.54 percent of the total assessed value of taxable property in the District.

Typical Total Tax Rates per \$100 of Assessed Valuation
TRA 17-015
Cambrian School District

	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
General Tax Rate	\$1.00000	\$1.00000	\$1.00000	\$1.00000	\$1.00000
County Retirement Levy	0.03880	0.03880	0.03880	0.03880	0.03880
County Hospital and Housing Bonds	0.02086	0.01770	0.01690	0.00690	0.01876
Cambrian School District Bonds	0.04370	0.04180	0.04150	0.04150	0.06920
Campbell Union High School District Bonds	0.05190	0.04870	0.04360	0.04390	0.04210
West Valley-Mission Community College District Bonds	0.02000	0.01980	0.02960	0.03110	0.03040
City of San Jose Bonds	<u>0.01860</u>	<u>0.01700</u>	<u>0.02260</u>	<u>0.01750</u>	<u>0.02070</u>
Total Tax Rate	\$1.19386	\$1.18380	\$1.19300	\$1.17970	\$1.21996
Santa Clara Valley Water District State Water Project	<u>\$0.00620</u>	<u>\$0.00420</u>	<u>\$0.00410</u>	<u>\$0.00370</u>	<u>\$0.00510</u>
Total Land and Improvement Tax Rate	<u>\$0.00620</u>	<u>\$0.00420</u>	<u>\$0.00410</u>	<u>\$0.00370</u>	<u>\$0.00510</u>

Source: California Municipal Statistics, Inc.

The more property (by assessed value) that is owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and their ability or willingness to pay property taxes. In fiscal year 2021-22, no single taxpayer owned more than 2.31 percent of the total secured taxable property in the District.

The 20 taxpayers in the District with the greatest combined secured assessed valuation of taxable property on the fiscal year 2021-22 tax roll own property that comprises 11.05 percent of the local assessed valuation of secured property in the District. These taxpayers, ranked by aggregate assessed value of taxable property as shown on the fiscal year 2021-22 secured tax roll, and the amount of each owner's assessed valuation for all taxing jurisdictions within the boundaries of the District are shown in the following table.

Each taxpayer listed is a unique name on the tax rolls. The District cannot determine from assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the list of largest taxpayers identified in the following table.

**Largest Taxpayers
Cambrian School District**

<u>Property Owner</u>	<u>2021-22 Primary Land Use</u>	<u>2021-22 Assessed Valuation</u>	<u>Percent of Total¹</u>
1. Good Samaritan Hospital LP	Hospital	\$175,615,683	2.31%
2. Parc Residences LLC	Apartments	110,931,615	1.46
3. Campbell Technology Park LLC	Business Park	85,851,070	1.13
4. Pacific OAK SOR II	Office Building	56,322,774	0.74
5. Weingarten Nostat Inc.	Shopping Center	54,405,882	0.72
6. Essex the Commons LP	Apartments	50,294,883	0.66
7. Cedar Glen Associates	Apartments	29,539,603	0.39
8. EQR Woodleaf Apartments LP	Apartments	29,058,430	0.38
9. Camden Park LLC	Shopping Center	28,600,687	0.38
10. San Jose Water Works	Water Company	27,804,995	0.37
11. Grand Prix Campbell SJ LLC	Hotel	22,585,138	0.30
12. Union Manor Apartments LP	Apartments	21,252,216	0.28
13. HD Development of Maryland Inc.	Commercial	20,370,310	0.27
14. Save Mart Portfolio Owner Fund V CA LLC	Supermarket	19,498,381	0.26
15. Dayton Hudson Corporation	Commercial	19,011,318	0.25
16. Go Sasaki Sr., Trustee	Apartments	18,918,308	0.25
17. Lucile Salter Packard Children's Hospital	Office Building	17,574,780	0.23
18. Lyon Shadow CR Apartments LLC	Apartments	17,191,683	0.23
19. Paseo De Palomas Inc.	Apartments	16,839,508	0.22
20. Richard T. Spieker, Trustee	Apartments	<u>16,798,656</u>	<u>0.22</u>
Total		\$838,465,920	11.05%

¹Fiscal year 2021-22 local secured assessed valuation in the District is \$7,590,931,630.
Source: California Municipal Statistics, Inc.

Direct and Overlapping Bonded Debt

Contained within the District’s boundaries are numerous overlapping local entities providing public services which may have outstanding long-term obligations in the form of general obligation, lease revenue and special assessment bonds. Such obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the boundaries of 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.

The following table generally includes long-term obligations sold in the public credit markets by the public agencies listed. The first column in the table names each public agency which has outstanding debt as of August 1, 2022, and whose territory overlaps the District in whole or in part. The second column shows the percentage of each overlapping agency’s assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (not shown) produces the amount shown in the third column, which is the apportionment of each overlapping agency’s outstanding debt to taxable property in the District. Property owners within the boundaries of the District may be subject to other special taxes and assessments levied by other taxing authorities providing services within the boundaries of the District. Such non-*ad valorem* special taxes and assessments (which are not levied to fund debt service) are not represented in the statement of direct and overlapping bonded debt.

Statement of Direct and Overlapping Bonded Debt (As of August 1, 2022)
Cambrian School District

<u>2021-22 Assessed Valuation:</u> \$	Percent	Debt as of
	<u>Applicable</u>	<u>August 1, 2022</u>
<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
Santa Clara County	1.339%	\$13,940,664
West Valley-Mission Community College District	4.678	32,480,290
Campbell Union High School District	13.313	47,224,539
Cambrian School District	100.000	57,759,944 ¹
City of Campbell	19.545	9,225,240
City of San Jose	2.297	13,371,067
Midpeninsula Regional Open Space Park	0.045	38,059
Santa Clara Valley Water District Benefit Assessment District	1.339	<u>644,729</u>
 TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		 \$174,684,532

OVERLAPPING GENERAL FUND DEBT:

Santa Clara County General Fund Obligations	1.339%	\$16,208,252
Santa Clara County Pension Obligation Bonds	1.339	4,415,243
Santa Clara County Board of Education Certificates of Participation	1.339	24,370
West Valley-Mission Community College District General Fund Obligations	4.678	561,360
Campbell Union High School District General Fund Obligations	13.313	2,063,515
City of Campbell Certificates of Participation	19.545	1,143,547
City of San Jose General Fund Obligations	2.297	15,682,882
Midpeninsula Regional Open Space Park General Fund Obligations	0.045	44,868
Santa Clara County Vector Control District Certificates of Participation	1.339	<u>20,152</u>
 TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		 \$40,164,189
Less: Santa Clara County supported obligations		<u>239,129</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$39,925,060

OVERLAPPING TAX INCREMENT DEBT (Successor Agency): \$2,913,878

GROSS COMBINED TOTAL DEBT \$217,762,599 ²
NET COMBINED TOTAL DEBT \$217,523,470

Ratios to 2021-22 Assessed Valuation:

Direct Debt (\$57,759,944).....0.75%
Total Direct and Overlapping Tax and Assessment Debt2.26%
Gross Combined Total Debt2.82%
Net Combined Total Debt2.82%

Ratios to Redevelopment Incremental Valuation (\$210,126,642):

Total Direct Tax Increment Debt1.39%

¹Excludes the Bonds to be sold.

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

Source: California Municipal Statistics, Inc.

Tax Collections and Delinquencies

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

Regular secured tax bills are mailed by November 1 of each year to taxpayers at addresses furnished from the records of the County Assessor. Property taxes on the regular secured roll are due in two equal installments. The first installment is due on November 1 and becomes delinquent if not paid by December 10. The second installment is due on February 1 and becomes delinquent after if not paid by April 10. Secured taxes not paid by the delinquency date are subject to penalties. The penalty for paying after the delinquency date but before the close of the current fiscal year is 10 percent of the tax. Beginning July 1 of the subsequent fiscal year, a redemption penalty of 1.5 percent of the defaulted tax is added per month until the parcel is redeemed. After five years, the County generally has the power to sell tax-defaulted property that is not redeemed; proceeds from such sale are applied to the payment of the delinquent taxes.

Unsecured tax bills are mailed by July 1 of each year to taxpayers at addressees furnished from the records of the County Assessor. Taxes on the unsecured roll become delinquent if not paid by. Taxes unpaid by the delinquency date will have a lien recorded against the property owner. Any property tax payment received after the delinquency date is subject to a 10 percent penalty plus \$20 cost imposed on the installment. Upon delinquency, the County may use the following collection methods: filing of liens, filing of summary judgments, seizure and sale of personal property, or seizure of State tax refunds or State lottery winnings.

In light of the financial hardship that many taxpayers experienced due to the COVID-19 pandemic, the Governor issued Executive Order N-61-20, which suspended from May 6, 2020 until May 6, 2021, the statutory requirements for the imposition of penalties, costs and interest for the failure to pay property taxes on the secured or unsecured roll, or to pay a supplemental bill, provided certain conditions were met.

The following table shows a five-year history of real property tax collections and delinquencies in the District.

Secured Tax Charges and Delinquencies¹ Cambrian School District

<u>Fiscal Year</u>	<u>Secured Tax Charge²</u>	<u>Amount Delinquent As of June 30</u>	<u>Percent Delinquent As of June 30</u>
2016-17	\$2,527,519.07	\$11,247.45	0.44%
2017-18	2,642,321.78	11,074.19	0.42
2018-19	2,688,664.25	10,541.58	0.39
2019-20	2,832,812.08	14,963.67	0.53
2020-21	2,993,268.25	11,491.12	0.38

¹The County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100 percent of the assessments levied to the taxing entity, with the County retaining all penalties and interest.

²District's general obligation bond levy

Source: California Municipal Statistics, Inc.

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

Alternative Method of Tax Apportionment

The County Board has approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) pursuant to the California Revenue and Taxation Code (the “Revenue and Taxation Code”) Section 4701 *et seq.* The Teeter Plan guarantees distribution to each local agency in the County an amount equal to

100 percent of the *ad valorem* property taxes levied on their behalf on the secured roll within the County, with the County retaining all penalties and interest affixed upon delinquent properties and redemptions of subsequent collections.

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

The Teeter Plan is to remain in effect in the County unless the County Board orders its discontinuance or unless, prior to the commencement of any fiscal year (which commences on July 1 for the County), the County Board receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The County Board may also, after holding a public hearing on the matter, discontinue the implementation of the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls in that agency.

If the Teeter Plan were discontinued in the County, only those secured property taxes actually collected in the County would be allocated to political subdivisions in the County, including the District. Further, the District’s tax revenues would be subject to taxpayer delinquencies; however, the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law. As long as the Teeter Plan remains in effect in the County, the District will be credited with the full amount of secured property tax levies no matter the delinquency rate within the boundaries of the District.

The COVID-19 Pandemic

An outbreak of a respiratory disease caused by a new strain of coronavirus, COVID-19, was first detected in China in late 2019 and has subsequently spread globally. The World Health Organization declared the COVID-19 outbreak as a Public Health Emergency of International Concern on January 30, 2020, further characterizing the outbreak as a pandemic on March 11, 2020.

Federal Actions. On March 13, 2020, the federal government declared a national emergency in response to the COVID-19 pandemic, making available more than \$50 billion in federal funds for disaster relief and assistance. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law, authorizing more than \$2 trillion to battle COVID-19 and its economic effects, including approximately \$31 billion for K–12 and higher education assistance and more than \$4 billion for childcare and early education programs.

On December 27, 2020, the \$900 billion Coronavirus Response and Relief Supplemental Appropriations Act (the “Coronavirus Relief Act”) was signed into law. The Coronavirus Relief Act provides approximately \$82 billion for education, \$54.3 billion of which is intended for K-12 schools.

On March 11, 2021, the American Rescue Plan Act of 2021 (“ARPA”) was signed into law, authorizing more than \$1.9 trillion to combat the pandemic and provide aid to those impacted by its economic effects. ARPA provides approximately \$170 billion for education, including \$125.4 billion for state K-12 education programs, the large majority of which is to be distributed to local education agencies based on their relative share of Title I-A funding.

State Actions. On March 4, 2020, the Governor declared a state of emergency in response to the COVID-19 pandemic. The Governor issued Executive Order N-26-20 on March 13, 2020, ensuring California public school districts retain State funding even in the event of physical closure. The order directed school districts to use those State dollars to fund distance learning and high-quality educational opportunities, provide school meals, continue to pay employees, and, as practicable, arrange for the supervision for students during school hours.

On March 17, 2020, the Governor signed Senate Bill 89 (“SB 89”) appropriating \$500 million from the State general fund for any purpose related to the Governor’s March 4, 2020 emergency declaration. SB 89 allowed additional funds to be appropriated in \$50 million increments up to a total of not to exceed \$1 billion. The Governor also signed Senate Bill 117 (“SB 117”), which, among other items, provided that attendance during full school months from July 1, 2019, to February 29, 2020, inclusive, would be reported for apportionment purposes for fiscal year 2019-20 for school districts that complied with Executive Order N-26-20. SB 117 also held harmless school districts not meeting minimum instructional day and minute requirements during the academic year. Additionally, SB 117 appropriated \$100 million for local educational agencies to

purchase protective equipment and supplies and labor related to cleaning school sites as a result of COVID-19, allocated to local education agencies on the basis of average daily attendance (“ADA”).

On July 17, 2020, the Governor announced statewide restrictions on the reopening of K-12 schools and issued updated State guidelines and requirements regarding both in-person and distance learning. Consistent with these restrictions, the California Department of Public Health issued a framework for when and how K-12 schools should reopen for in-person instructions. The California Department of Public Health released updated guidance for the safe re-opening of K-12 schools for in-person instruction on January 14, 2021.

On August 28, 2020, the Governor released an updated framework for reopening businesses and activities, the Blueprint for a Safer Economy (the “Blueprint”). The Blueprint assigns each of the State’s 58 counties into four color-coded tiers: purple (tier 1, widespread), red (tier 2, substantial), orange (tier 3, moderate) and yellow (tier 4, limited), based on the number of new daily cases of COVID-19 and the percentage of positive tests. Implementation of the Blueprint as part of a phased reopening depended on local conditions, including the level of COVID-19 infections and hospitalization rates for a minimum of 14 days, testing resources of the county, and preparedness of the county’s healthcare system. The State lifted the tier-based restrictions on June 15, 2021 as a result of meeting goals for vaccine availability and hospitalization rates.

On March 5, 2021, the Governor signed Assembly Bill 86 (“AB 86”), providing \$6.6 billion in State funding to local education agencies for COVID-19 relief, including \$2.0 billion of in-person instruction grants to expedite the reopening schools and \$4.6 billion of expanded learning opportunity grants to address the pandemic’s impact on learning. The \$2.0 billion in-person instruction grants were distributed to local education agencies in proportion to their local control funding formula (“LCFF”) entitlement. In order to receive full in-person instruction grants, local educational agencies had to offer in-person instruction to students by April 1, 2021, with grants incrementally decreasing for each day after April 1 that the local education agency does not provide in-person instruction in accordance with grant requirements. AB 86 also identified the requirements to offer in-person instruction as a condition of receiving the grant based on the color tiers in the Blueprint. Regarding the \$4.6 billion of expanded learning opportunity grants, local education agencies received \$1,000 for each homeless student enrolled, with the majority of the remaining amount distributed in proportion to a local education agency’s LCFF entitlement. The expanded learning opportunity grants could be used for various strategies to accelerate learning and address student needs, such as extended learning time, professional development, programs to address social-emotional learning, and access to school meals.

In August 2021, the California Department of Public Health issued a public health order requiring all school employees in the State to either show proof of full vaccination or be tested at least once a week effective October 15, 2021. In October 2021, the Governor announced plans to add the COVID-19 vaccine to the list of vaccinations required for students to attend school in-person when the vaccine receives full approval from the Food and Drug Administration for middle and high school grades. Such Statewide student vaccination requirement is expected to take effect no sooner than July 1, 2023.

The District receives a significant portion of its revenues from State funds and local property taxes. The COVID-19 outbreak may result in a material change in the State’s financial position. Declines in State revenues as a consequence of the COVID-19 outbreak could result in a corresponding decline in revenues available for the District. See “FUNDING OF PUBLIC EDUCATION IN THE STATE” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District’s financial condition. See “THE DISTRICT—Impact of the COVID-19 Pandemic” herein.

Notwithstanding the impact that the COVID-19 outbreak may have on the economy in the State and the District’s financial condition, the Bonds are payable from the proceeds of an *ad valorem* property tax, approved by the voters within the boundaries of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak may have on the assessed value of real property or property tax collections by the County within the boundaries of the District.

SANTA CLARA COUNTY TREASURY POOL

This section provides a general description of the County Investment Policy and current portfolio holdings. Certain information set forth under this section relating to the County Pool has been obtained from the County Director of Finance

and is believed to be reliable but is not guaranteed as to accuracy or completeness. The District makes no representation as to the accuracy or completeness of such information. Further information may be obtained by contacting the County of Santa Clara, Director of Finance, Finance Agency, County Government Center, East Wing, 70 West Hedding Street, San Jose, California, 95110, telephone (408) 299-2541.

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

Funds held in the County Pool are invested by the County Director of Finance in accordance with State law and the County Investment Policy, which is prepared by the County Director of Finance and approved by the County Board. A copy of the County Investment Policy is attached hereto as "APPENDIX D." The County Investment Policy sets forth the investment objectives, in order of priority, of safety of principal, liquidity and yield. In addition, the County Investment Policy describes the instruments eligible for inclusion in the County Pool and the limitations applicable to each type. A County Treasury Oversight Committee approves the County Investment Policy prepared by the County Director of Finance annually, reviews and monitors the quarterly investment reports prepared by the County Director of Finance, reviews depositories for County funds and broker/dealers and banks as approved by the County Director of Finance, and causes an annual audit to be conducted to determine the County Treasury's compliance with all relevant investment statutes and ordinances and the County Investment Policy. The County Director of Finance neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds.

A summary description of the composition of the County Pool from the quarterly investment report as of March 31, 2022 is provided in the following table.

Securities by Type as of March 31, 2022
Santa Clara County Treasury Pool

<u>Investments</u>	<u>Book Value</u>	<u>Percent of Portfolio</u>
Federal Agencies	\$3,127,034,107	29.73%
Corporate Bonds	999,803,424	9.50
Mortgage Backed Securities	755,887,855	7.19
Commercial Paper	787,284,454	7.48
Asset-Backed Securities	935,073,222	8.89
Asset-Backed Securities - Green Bonds	48,993,778	0.47
Municipal Securities	102,196,141	0.97
U.S. Treasuries	964,281,931	9.17
Negotiable CDs	1,639,901,049	15.59
LAIF	43,212,399	0.41
Money Market Funds	794,323,347	7.55
Supranationals	296,816,390	2.82
Supranationals - Green Bonds	<u>24,464,690</u>	<u>0.23</u>
Total	\$10,519,272,787	100.00%

Source: County Director of Finance.

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

CITY AND COUNTY ECONOMIC PROFILE

The information in this section concerning the economy of the City and the County is provided as supplementary information only and is not intended to be an indication of security for the Bonds. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

General Information

The County, founded in 1850, is located at the southern end of the San Francisco Bay Area region of the State. Encompassing approximately 1,316 square miles, the County is comprised of rural mountain ranges, wetlands and salt marshes, unincorporated ranch and farmland, and extensively urbanized areas. The County ranks sixth in population out of the 58 counties in the State. Also referred to as “Silicon Valley,” the dominant industry in the County is technology. Based on data compiled by CoreLogic, the median sale price of a single-family home in the County was \$1,534,000 in May 2022, an increase of 17.1 percent from \$1,310,000 in May 2021.

The City is the oldest city in the State, developing from a Spanish pueblo established in 1777. Situated between the Diablo and Santa Cruz mountain ranges, the City encompasses approximately 181 square miles at the south end of the San Francisco Bay and is the county seat of the County. The City is the third most populous city in the State and the tenth most populous in the United States. Based on data compiled by CoreLogic, the median sale price of a single-family home in the City was \$1,400,000 in May 2021, an increase of approximately 19.6 percent from \$1,171,000 in May 2021.

Population

The following table displays estimated population for the City, County and State as of January 1 for the past two years along with the April 1, 2020 benchmark as reported by the U.S. Census Bureau.

**Historical Population
City of San Jose, Santa Clara County and the State of California**

	<u>2020</u>	<u>2021</u>	<u>2022</u>
City of San Jose	1,015,826	991,144	976,482
County of Santa Clara	1,936,259	1,907,693	1,894,783
State of California	39,538,223	39,303,157	39,185,605

Source: State Department of Finance.

Personal Income

Total personal income includes income from all sources including net earnings, dividends, interest and rent, and personal current transfer receipts received by residents in the region. *Per capita* personal income (“PCPI”) was \$123,661 in the County

in 2020, an increase of 7.9 percent from 2019 levels, compared to an increase of 8.8 percent statewide and 6.2 percent nationally. The following table shows PCPI for the County as well as for the State and the United States for the past five years for which data is available.

**Per Capita Personal Income
County of Santa Clara, State of California and United States**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
County of Santa Clara	\$91,828	\$99,336	\$108,344	\$114,649	\$123,661
State of California	56,667	58,942	61,663	64,513	70,192
United States	49,812	51,811	54,098	56,047	59,510

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

Labor Force and Employment

The following table contains a summary of the City’s historical unemployment data for the past four calendar years and the most recent month for which data is available, not seasonally adjusted.

**Historical Unemployment
City of San Jose**

	<u>Annual 2018</u>	<u>Annual 2019</u>	<u>Annual 2020</u>	<u>Annual 2021</u>	<u>June 2022¹</u>
Total Labor Force	549,400	552,000	544,200	536,600	547,400
Number of Employed	534,200	537,100	499,100	508,400	534,500
Number of Unemployed	15,300	14,900	45,100	28,200	12,900
Unemployment Rate	2.8%	2.7%	8.3%	5.3%	2.4%

¹Preliminary.

Source: State Employment Development Department.

The following table contains a summary of the County’s historical unemployment data for the past four calendar years for which data is available and the most recent month for which data is available, not seasonally adjusted.

**Historical Unemployment
County of Santa Clara**

	<u>Annual 2017</u>	<u>Annual 2018</u>	<u>Annual 2019</u>	<u>Annual 2020</u>	<u>June 2022¹</u>
Total Labor Force	1,037,400	1,042,300	1,050,100	1,021,800	1,038,600
Number of Employed	1,003,700	1,014,600	1,023,400	948,300	1,015,600
Number of Unemployed	33,700	27,700	26,700	73,500	23,100
Unemployment Rate	3.2%	2.7%	2.5%	7.2%	2.2%

¹Preliminary.

Source: State Employment Development Department.

Employment by Industry

The following table shows labor patterns by type of industry from calendar years 2017 through 2021 by annual average, not seasonally adjusted, in the County.

Historical Employment by Industry County of Santa Clara

<u>Type of Industry</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total, All Industries	1,093,700	1,115,200	1,137,900	1,068,600	1,090,400
Total Farm	3,600	3,500	3,300	3,100	3,000
Total Nonfarm	1,090,100	1,111,700	1,134,700	1,065,500	1,087,400
Goods Producing	211,200	217,200	220,500	214,300	216,700
Mining and Logging	200	200	200	200	200
Construction	47,900	48,300	51,400	48,600	50,200
Manufacturing	163,100	168,700	168,900	165,500	166,300
Durable Goods	152,000	157,700	158,000	155,900	155,200
Nondurable Goods	11,100	11,100	10,800	9,600	11,100
Service Providing	878,900	894,500	914,200	851,200	870,800
Trade, Transportation & Utilities	132,000	131,700	128,400	116,000	117,000
Wholesale Trade	32,600	31,900	31,000	28,800	27,900
Retail Trade	84,500	84,400	81,700	71,800	73,100
Transportation, Warehousing & Utilities	14,900	15,300	15,600	15,400	16,000
Information	84,600	92,100	100,500	105,800	106,800
Financial Activities	35,800	36,400	37,600	37,700	37,900
Finance & Insurance	21,400	21,400	21,800	22,700	23,200
Real Estate & Rental & Leasing	14,400	15,100	15,800	15,000	14,600
Professional & Business Services	236,200	235,900	241,900	236,300	242,900
Professional, Scientific & Technical Services	154,000	157,700	164,400	163,600	167,600
Management of Companies & Enterprises	19,200	16,900	15,800	15,000	14,200
Administrative & Support & Waste Services	63,000	61,300	61,700	57,700	61,200
Educational & Health Services	167,400	171,900	177,200	171,200	176,600
Educational Services	46,800	47,600	47,800	43,500	43,800
Health Care & Social Assistance	120,600	124,300	129,300	127,700	132,800
Leisure & Hospitality	102,000	104,200	105,900	71,700	77,600
Other Services	28,400	28,400	28,400	21,700	21,800
Government	92,700	93,800	94,300	90,900	90,200
Federal Government	10,100	9,800	9,900	10,500	10,300
State Government	6,600	6,900	6,700	6,800	6,700
Local Government	76,000	77,200	77,700	73,600	73,200

Figures may not foot due to rounding.

Major Employers

The following table provides a list of 15 principal employers, corresponding number of employees and percent of total employment in the City for fiscal year 2020-21.

Principal Employers City of San Jose

<u>Rank</u>	<u>Company or Organization</u>	<u>Number of Employees</u>	<u>Percent of Total Employment</u>
1	County of Santa Clara	18,700	3.76%
2	City of San José	7,627 ¹	1.53
3	Cisco Systems	7,500	1.51
4	Paypal, Inc.	3,868	0.78
5	San José State University	3,650	0.73
6	Adobe Systems Inc.	3,400	0.68
7	Kaiser Permanente	3,035	0.61
8	eBay	2,800	0.56
9	Western Digital	2,759	0.56
10	San Jose Unified School District	2,679	0.54
11	Target Stores	2,437	0.49
12	Super Micro Computer	2,230	0.45
13	IBM	2,200	0.44
14	Cadence Design Systems	1,956	0.39
15	Good Samaritan Health System	1,850	0.37

¹Full-time and part-time employees.

Source: City of San Jose, Comprehensive Annual Financial Report for the Year Ended June 30, 2021.

The following table provides a list of 10 principal employers, corresponding number of employees and percent of total employment in the County for fiscal year 2020-21.

Principal Employers County of Santa Clara

	<u>Employer</u>	<u>Number of Employees</u>	<u>Percent of Total County Employment</u>
1	Apple Inc.	25,000	2.60%
2	Google LLC	25,000	2.60
3	County of Santa Clara	20,638	2.15
4	Stanford University	15,314	1.59
5	Stanford Health Care (formerly Hospital & Clinics)	14,574	1.52
6	Tesla Motors Inc.	13,000	1.35
7	Cisco Systems Inc.	12,740	1.32
8	Kaiser Permanente Northern California	12,442	1.29
9	City of San Jose	7,641	0.79
10	Intel Corporation	<u>7,143</u>	0.74
	Total Top Ten Employers	153,492	
	Total County Employment	961,700	

Source: County of Santa Clara, California Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021.

Commercial Activity

Total taxable sales during calendar year 2021 in the City were \$20,459,774,652, a 17.3 percent increase from total taxable sales of \$17,436,700,815 during calendar year 2020.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the City for the past five calendar years for which data is available are presented in the following table.

Taxable Retail Sales City of San Jose

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales Tax Permits	22,997	24,323	24,654	25,671	23,747
Taxable Sales (000's)	\$15,222,401	\$16,428,568	\$17,151,535	\$17,436,701	\$20,459,775

Source: California Department of Tax and Fee Administration.

Total taxable sales during calendar year 2021 in the County were \$52,921,606,978, a 13.9 percent increase from the total taxable sales of \$46,444,650,255 during calendar year 2020.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions (in thousands of dollars) in the County for the past five calendar years for which data is available are presented in the following table.

Taxable Retail Sales County of Santa Clara

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Sales Tax Permits	50,812	52,994	53,312	55,395	51,015
Taxable Sales (000's)	\$43,149,031	\$45,353,074	\$47,001,964	\$46,444,650	\$52,921,607

Source: California Department of Tax and Fee Administration.

Construction Activity

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

New Residential Building Permits County of Santa Clara

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Single-Family Residential Units	1,646	2,023	1,915	1,876	1,322
Multi-Family Residential Units	<u>4,063</u>	<u>5,945</u>	<u>6,276</u>	<u>3,620</u>	<u>4,035</u>
Total New Building Permits	5,709	7,968	8,191	5,496	5,357
Total Construction Costs	\$1,176,448	\$1,734,780	\$1,849,046	\$1,301,592	\$1,011,537

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

THE DISTRICT

It should not be inferred from the inclusion of the information in this section concerning the operations of the District and its finances that the principal of or interest on the Bonds is payable from the General Fund. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See “SECURITY AND SOURCE OF PAYMENT” herein.

All tables in this section “THE DISTRICT” are from the District unless a source is otherwise indicated.

General Information

The District is a political subdivision of the State located in the County. Encompassing approximately eight square miles, the District serves a population of approximately 32,200 people residing in the western portion of the City as well as portions of the City of Campbell and the Town of Los Gatos. The District operates four elementary schools serving transitional kindergarten through fifth grade, three of which are charter schools, one elementary school serving transitional kindergarten through eighth grade, and one charter middle school serving sixth through eighth grade, in total providing education to approximately 2,980 students.

The District Board of Trustees and Key Administrative Personnel

The District Board governs all activities related to public education within the jurisdiction of the District. The District Board has decision-making authority, the power to designate management, the responsibility to significantly influence operations and accountability for all fiscal matters relating to the District.

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

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

Board of Trustees Cambrian School District

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carol Presunka	President	December 2022
Janet Gillis	Vice President	December 2024
Donald Rocha	Clerk	December 2024
Jarod Middleton	Member	December 2022
Randy Scofield	Member	December 2022

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

Enrollment

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

To alleviate the impact of the COVID-19 pandemic, SB 117 provided that, for school districts that complied with State requirements, only attendance during full school months from July 1, 2019 to and including February 29, 2020, was reported for apportionment purposes for fiscal year 2019-20. The State budget for fiscal year 2020-21 provided that ADA for fiscal year 2020-21 was based on the 2019-20 year. While the State budget for fiscal year 2021-22 did not include an extension of the ADA hold-harmless provision, school districts with enrollment declines in fiscal year 2021-22 retained the ability to receive their apportionment based on the higher of their fiscal year 2019-20 or fiscal year 2020-21 ADA as provided under LCFF. For fiscal year 2022-23, the State budget amends the LCFF calculation to consider the greater of a school district’s current year, prior year, or the average of three prior years’ ADA (see “FUNDING OF PUBLIC EDUCATION IN THE STATE—The 2022-23 State Budget” herein). This formula change helps school districts with significant declining enrollment better serve remaining students.

Set forth in the following table is the historical and current fiscal year estimated P-2 ADA for the District.

Average Daily Attendance Cambrian School District

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u> ¹	<u>2021-22</u>	<u>2022-23</u> ¹
District P-2 ADA	954	1,018	993	936	n/a	901	860
Charter P-2 ADA	<u>2,471</u>	<u>2,466</u>	<u>2,361</u>	<u>2,361</u>	<u>n/a</u>	<u>1,931</u>	<u>1,931</u>
Total P-2 ADA	3,425	3,484	3,354	3,297	n/a	2,832	2,791

¹The District was not required to report ADA in fiscal year 2020-21.

²Estimated as of the fiscal year 2022-23 adopted budget.

Charter Schools

The District operates four fiscally dependent charter schools: Fammatre Elementary School serving grades kindergarten through fifth with enrollment of 480 students in fiscal year 2021-22, Farnham Charter School serving grades kindergarten through fifth with enrollment of 390 students in fiscal year 2021-22, Sartorette Elementary School serving grades kindergarten through fifth with enrollment of 283 students in fiscal year 2021-22, and Price Charter Middle School serving grades sixth through eighth with enrollment of 887 students in fiscal year 2021-22. The financial activities of the four charter schools are included in the District’s General Fund reporting. See “THE DISTRICT—Enrollment” for the charter schools’ ADA. [There are no fiscally independent charter schools operating with the boundaries of the District.]

Charter schools can adversely affect school district funding, either by reducing funded enrollment at the school district or, for community-funded districts, by increasing the in-lieu property tax transfer. However, certain per-pupil expenditures of a school district also decrease based upon the number of students enrolled in charter schools. Pursuant to Proposition 39, school districts are required to provide facilities reasonably equivalent to those provided to regular district students for charter schools having a projected average daily attendance of at least 80 or more students from that district.

Parcel Tax

A school district has authority to levy a qualified special tax upon approval by two-thirds of the votes cast on a proposal pursuant to Section 4 of Article XIII A of the State Constitution and Government Code Section 50075, *et seq.*

In March 2001, voters within the District authorized a parcel tax (“Measure A”) of up to \$63 per parcel effective July 1, 2001, with certain exemptions, adjusted annually by changes in the consumer price index and without an expiration date. The tax rate for Measure A for fiscal year 2021-22 is \$____. Measure A parcel tax revenues are used to improve children’s academic performance, reduce class size, improve teaching quality, and expand art, science, music, technology, and physical education within the District. Measure A parcel tax revenues are estimated to be approximately \$893,000 in fiscal year 2021-22.

In June 2018, voters within the District authorized a second parcel tax (“Measure H”) of \$84 per parcel for a term of eight years, effective July 1, 2018. Measure H parcel tax revenues are used to provide District students with stable funding for instruction in math, science, reading, engineering, technology, and arts; retain highly qualified teachers; and maintain class sizes. Measure H parcel tax revenues are estimated to be approximately \$746,000 in fiscal year 2021-22.

Employee Relations

State law provides that employees of public school districts in the State are to be divided into appropriate bargaining units which then may be represented by an exclusive bargaining agent. The District has two recognized bargaining agents representing its non-management employees. The Cambrian District Teachers Association (“CDTA”) is the exclusive bargaining unit for the non-management, certificated employees of the District. The California School Employees Association, Chapter 661 (“CSEA Chapter 661”) is the exclusive bargaining unit for the District’s non-management, classified employees.

Set forth in the following table are the District’s bargaining units, number of full-time equivalents (“FTEs”) budgeted for fiscal year 2022-23, and contract status.

**Bargaining Units, Number of Employees and Contract Status
Cambrian School District**

<u>Bargaining Unit</u>	<u>Full-Time Equivalents</u>	<u>Contract Status</u>
CDTA	146	In negotiations fiscal year 2022-23
CSEA Chapter 661	91	In negotiations fiscal year 2022-23

The District has an additional 26 management and confidential FTEs not represented by a bargaining unit budgeted for fiscal year 2022-23.

Impact of the COVID-19 Pandemic

As a result of the COVID-19 pandemic, the District closed its schools and transitioned to distance learning in spring 2020. Pursuant to SB 117, the District received LCFF funding in fiscal year 2019-20 based on its ADA through February 29, 2020, and was held harmless for not meeting minimum instructional day and minute requirements during the academic year.

The District began the 2020-21 school year under a distance learning format, transitioning to a hybrid model of education combining distance learning and in-person instruction by March 2021. For fiscal year 2020-21, ADA for LCFF funding purposes was based on the 2019-20 year, and local educational agencies, including the District, were exempted from the annual minimum instructional minutes requirement. While minimum daily instructional minutes and minimum instructional day requirements were maintained, they could be met through a combination of in-person and distance learning instruction.

The District began the 2021-22 school year with in-person instruction in August 2021. The District offered an independent study program for students who did not wish to return to campus. Since the District is no longer statutorily authorized to offer

the type of distance learning alternative to in-person instruction that it provided in the 2020-21 school year, the independent study program serves a significantly smaller portion of its students. For fiscal year 2021-22, ADA for LCFE funding purposes is based on the highest of the 2019-20 or 2021-22 school years.

The District has been allocated emergency funding of approximately \$__ million from the CARES Act (including \$__ million of coronavirus relief funds, \$__ million of ESSER I funds, and \$__ million of GEER I funds), \$__ million from the Coronavirus Relief Act (also referred to as “ESSER II”), \$__ million from ARPA (also referred to as “ESSER III”) and \$__ million from AB 86 along with a State-funded educator effective program to address COVID-19 related expenditures specifically and the impact of the COVID-19 pandemic on District students generally. [The District currently expects such funding will cover the increased expenditures relating to COVID-19 that the District incurs through fiscal year 2022-23.]

The District receives a significant portion of its revenues from State funds and local property taxes. The COVID-19 outbreak may result in a material change in the State’s financial position. Declines in State revenues as a consequence of the COVID-19 outbreak could result in a corresponding decline in revenues available for the District. See “FUNDING OF PUBLIC EDUCATION IN THE STATE” herein. The District cannot predict the outbreak’s extent or duration or what impact the outbreak as well as responses by federal, State or local authorities may have on the District’s financial condition. See “SECURITY AND SOURCE OF PAYMENT—The COVID-19 Pandemic” herein.

Pension Plans

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

The District accounts for its pension costs and obligations pursuant to *Governmental Accounting Standards Board* (“GASB”) *Statement No. 67, Financial Reporting for Pension Plans* (“GASB 67”) and *Statement No. 68, Accounting and Financial Reporting for Pensions* (“GASB 68”). GASB 68 requires an employer that provides a defined benefit pension, such as the District, to recognize and report its long-term obligation for pension benefits as a liability as it is earned by employees. See “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2021” attached hereto.

STRS—Description and Contributions. STRS operates under the Education Code sections commonly known as the State Teachers’ Retirement Law. Membership is mandatory for all certificated employees of State public schools meeting eligibility requirements. STRS provides retirement, disability and death benefits to beneficiaries. Benefits are based on members’ hire date, final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

Prior to fiscal year 2014-15, and unlike typical defined benefit programs, none of the employee, employer nor State contribution rates to the STRS Defined Benefit Program varied annually to make up funding shortfalls or assess credits for actuarial surpluses. This resulted in the combined employer, employee and State contributions to the STRS Defined Benefit Program not being sufficient to pay actuarially required amounts. In September 2013, STRS projected that the STRS Defined Benefit Program would be depleted in 31 years assuming existing contribution rates continued and other significant actuarial assumptions were realized. In an effort to reduce the unfunded actuarial liability of the STRS Defined Benefit Program, the State passed the legislation described below in 2014 to increase contribution rates.

Prior to July 1, 2014, K-14 school districts were required by statute to contribute 8.25 percent of eligible salary expenditures to the STRS Defined Benefit Program, while participants contributed 8.0 percent of their respective salaries. On June 24, 2014, former Governor Brown signed AB 1469 (“AB 1469”) into law as a part of the State’s fiscal year 2014-15 budget. AB 1469 sought 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. Commencing on July 1, 2014, the employee contribution rate increased over a three-year phase-in period. Pursuant to the California Public Employees’ Pension Reform Act of 2013, the contribution rates

for members hired after January 1, 2013 will be adjusted if the normal cost increases by more than one percent since the last time the member contribution was set. The following table sets forth STRS member contribution rates for the past five years and the current year.

**Member Contribution Rates
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>STRS Members Hired Prior to January 1, 2013</u>	<u>STRS Members Hired On or after January 1, 2013</u>
July 1, 2017	10.250%	9.205%
July 1, 2018	10.250	9.205
July 1, 2019	10.250	10.205
July 1, 2020	10.250	10.205
July 1, 2021	10.250	10.205
July 1, 2022	10.250	10.205

Sources: AB 1469 and STRS.

Pursuant to AB 1469, K-14 school districts' contribution rates were scheduled to increase over a seven-year phase in period beginning in fiscal year 2014-15. For fiscal year 2021-22 and beyond, the STRS Teachers' Retirement Board (the "STRS Board") is required to increase or decrease the K-14 school districts' contribution rate to reflect the contribution required to eliminate the remaining 2014 Liability by June 30, 2046 based upon the recommendation from its actuary; provided that the rate cannot change in any fiscal year by more than one percent of creditable compensation upon which members' contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25 percent. AB 1469 also requires the STRS Board to report to the State Legislature every five years (commencing with the report due on or before July 1, 2019) on the fiscal health of the STRS Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of that program before July 1, 2014. The reports are also required to identify adjustments required in contribution rates for K-14 school districts and the State in order to eliminate the 2014 Liability.

Recent State budgets have included supplemental payments by the State to STRS to reduce the required contributions by school districts. Set forth in the following table are school districts' STRS contribution rates as enacted in AB 1469 as well as the contribution rates after consideration of the payments made by the State on behalf of school districts included in recent State budgets.

**Employer Contribution Rates¹
STRS (Defined Benefit Program)**

<u>Effective Date</u>	<u>AB 1469 Enacted STRS Contribution Rate</u>	<u>Actual STRS Contribution Rate</u>
July 1, 2014	8.88%	8.88%
July 1, 2015	10.73	10.73
July 1, 2016	12.58	12.58
July 1, 2017	14.43	14.43
July 1, 2018	16.28	16.28
July 1, 2019	18.13	17.10
July 1, 2020	19.10	16.15
July 1, 2021	19.10	16.92
July 1, 2022	19.10	19.10

¹Percentage of eligible salary expenditures to be contributed.

Sources: AB 1469 and the State budgets for fiscal years 2019-20 through 2021-22.

The State also contributes to STRS, currently in an amount equal to 8.328 percent of covered STRS member payroll for fiscal year 2022-23. The State’s contribution reflects a base contribution rate of 2.017 percent plus a supplemental contribution rate that will vary from year to year based on statutory criteria. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Board is required, with certain limitations, to increase or decrease the State’s contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. In addition, the State is currently required to make an annual general fund contribution up to 2.5 percent of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the “SBPA”), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85 percent of the purchasing power of their initial allowance.

The District’s actual STRS contributions for fiscal years 2017-18 through 2020-21, estimated STRS contribution for fiscal year 2021-22 and budgeted STRS contributions for fiscal year 2022-23 are set forth in the following table.

**STRS Employer Contributions
Cambrian School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contribution¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2017-18	14.43%	\$2,576,992	\$45,320,249	5.69%
2018-19	16.28	2,843,155	39,629,232	7.17
2019-20	17.10	2,970,264	45,015,803	6.60
2020-21	16.15	2,786,023	44,960,822	6.20
2021-22 ²	16.92	4,908,353	58,868,291	8.34
2022-23 ³	19.10	5,254,338	71,611,876	7.34

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

²Estimated. Includes State on-behalf payment of \$___. Excluding the State on-behalf payment would reduce the District contribution as percentage of total governmental funds expenditures in fiscal year 2021-22 to ___ percent.

³Budgeted. Includes State on-behalf payment of \$___. Excluding the State on-behalf payment would reduce the District contribution as percentage of total governmental funds expenditures in fiscal year 2022-23 to ___ percent.

PERS—Description and Contributions. All full-time classified employees of the District as well as certain part-time classified employees participate in PERS, which provides retirement and disability benefits as well as death benefits to plan members and beneficiaries. Benefits are based on members’ hire date, years of service credit, a benefit factor and the member’s final compensation.

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

Members in the PERS Schools Pool hired on or before December 31, 2012, with five years of total service are eligible to retire at age 55 with benefits equal to 2.0 percent of final compensation for each year of service credit. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 62 with benefits equal to 2.0 percent of final compensation for each year of service credit. All members in the PERS Schools Pool are eligible for non-duty disability benefits after five years of service. Active plan members with an enrollment date prior to January 1, 2013 are required to contribute 7.0 percent of their salary. Active plan members with an enrollment date on or after January 1, 2013 are required to contribute the greater of 50 percent of normal costs or 6.0 percent of their salary—for fiscal year 2022-23 their contribution rate is 8.0 percent.

State law requires that the PERS employer contribution rate be determined on an annual basis through an actuarial valuation process. Each employer rate plan’s actuarially determined rate is based on the estimated amount necessary to pay the employer rate plan’s allocated share of the cost of benefits earned by employees during the year, and any unfunded accrued

liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of the employee.

The District's actual PERS contributions for fiscal years 2017-18 through 2020-21, estimated PERS contribution for fiscal year 2021-22 and budgeted PERS contributions for fiscal year 2022-23 are set forth in the following table.

**PERS Employer Contributions
Cambrian School District**

<u>Fiscal Year</u>	<u>District Contribution Rate</u>	<u>District Contribution¹</u>	<u>Total District Governmental Funds Expenditures</u>	<u>District Contributions as Percentage of Total Governmental Funds Expenditures</u>
2017-18	15.531%	\$534,843	\$45,320,249	1.18%
2018-19	18.062	657,148	39,629,232	1.66
2019-20	19.721	825,201	45,015,803	1.83
2020-21	20.700	902,637	44,960,822	2.01
2021-22 ²	22.910	1,079,909	58,868,291	1.83
2022-23 ³	25.370	1,367,298	71,611,876	1.91

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

²Estimated.

³Budgeted.

Unfunded Liabilities and Pension Expense Reporting. Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these liabilities will vary depending on actuarial assumptions, returns on investment, salary scales and participant contributions. The actuarial funding method used in the STRS actuarial valuation as of June 30, 2021 is the entry age normal cost method, and assumes, among other things, a 7.0 percent investment rate of return, 3.0 percent interest on member accounts, projected 2.75 percent inflation, and projected payroll growth of 3.5 percent.

The following table shows the statewide funding progress of the STRS plan for the previous five years.

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

<u>Actuarial Valuation Date as of June 30</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2017	\$179,689	\$286,950	\$107,261	62.6%	\$31,961	336%
2018	190,451	297,603	107,152	64.0	32,613	329
2019	205,016	310,719	105,703	66.0	33,679	314
2020	216,252	322,127	105,875	67.1	34,617	306
2021	242,363	332,082	89,719	73.0	n/a	n/a

¹Dollars in millions.

Sources: California State Teachers' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021; California State Teachers' Retirement System, Defined Benefit Program Actuarial Valuation for Fiscal Year Ended June 30, 2021.

The District's proportionate share of the State STRS net pension liability as reported in its audited financial statements for the past five years are set forth in the following table.

**Proportionate Share of the Net Pension Liability—STRS
Cambrian School District**

<u>Fiscal Year</u>	<u>Proportion of Statewide Net Pension Liability</u>	<u>Proportionate Share of Statewide Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll</u>	<u>Fiduciary Net Position as Percentage of Total Pension Liability</u>
2016-17	0.0317%	\$25,629,902	\$15,823,122	161.98%	70%
2017-18	0.0321	29,649,264	17,066,741	173.73	69
2018-19	0.0335	30,817,680	17,858,572	172.57	71
2019-20	0.0325	29,389,092	17,464,097	168.28	73
2020-21	0.0325	31,485,333	17,369,965	181.26	72

The actuarial funding method used in the PERS Schools Pool Actuarial Valuation as of June 30, 2020 (the "2020 PERS Schools Actuarial Valuation") is the entry age normal cost method, and assumes, among other things, a 7.00 percent investment rate of return, 2.50 percent annual inflation and 2.75 percent annual payroll growth. The following table shows the statewide funding progress of the PERS Schools Pool for the previous six years.

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

<u>Actuarial Valuation Date as of June 30</u>	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Total Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Liability as a Percentage of Payroll</u>
2016	\$55,785	\$77,544	\$21,759	71.9%	\$13,022	167.1%
2017	60,865	84,416	23,551	72.1	13,683	172.1
2018	64,846	92,071	27,225	70.4	14,234	191.3
2019	68,177	99,528	31,351	68.5	14,844	211.2
2020	71,400	104,062	32,662	68.6	15,295	213.6
2021 ²	86,519	110,507	23,988	78.3	n/a	n/a

¹Dollars in millions.

²PERS Finance and Administration Committee Agenda Item 6d dated April 18, 2022.

Source: Unless otherwise indicated, California Public Employees' Retirement System, Schools Pool Actuarial Valuation as of June 30, 2020.

The District’s proportionate share of the State PERS Schools Pool net pension liability as reported in its audited financial statements for the past five years are set forth in the following table.

**Proportionate Share of the Net Pension Liability—PERS Schools Pool
Cambrian School District**

Fiscal Year	Proportion of Statewide Net Pension Liability	Proportionate Share of Statewide Net Pension Liability	Covered Employee Payroll	Proportionate Share of Statewide Liability as Percentage of Covered Employee Payroll	Fiduciary Net Position as Percentage of Total Pension Liability
2016-17	0.0245%	\$4,838,936	\$2,973,267	162.75%	74%
2017-18	0.0259	6,180,272	3,346,321	184.69	72
2018-19	0.0259	6,908,676	3,443,713	200.62	71
2019-20	0.0262	7,635,808	3,638,290	209.87	70
2020-21	0.0284	8,708,066	4,184,377	208.11	70

For the year ended June 30, 2021, the District’s combined recognized pension expense was \$6,119,433. The District’s total net pension liability as of June 30, 2021 was \$40,193,399.

The District is unable to predict the future amount of State pension liabilities or the amount of required District contributions. The District’s pension plans, annual contribution requirements and liabilities are more fully described in “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2021” attached hereto.

Other Postemployment Benefits (OPEB)

GASB *Statement No. 74 Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans* (“GASB 74”) and *Statement No. 75 Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions* (“GASB 75”). require employers to recognize a liability for “other postemployment benefits” or “OPEB” obligations. In the notes to its financial statements, employers providing OPEB also have to include information regarding the year-to-year change in the OPEB liability and a sensitivity analysis of the OPEB liability to changes in the discount rate and healthcare trend rate. GASB 74 and GASB 75 are directed at quantifying and disclosing OPEB obligations, and do not impose any requirement on public agencies to fund such obligations.

The District does not provide OPEB to its employees.

Public Entity Risk Pools and Joint Powers Authorities

The District is a member of the Santa Clara County Schools’ Insurance Group public entity risk pool and the West Valley Transportation Joint Powers Authority (together, the “Agencies”). The Santa Clara County Schools’ Insurance Group arranges for and provides property liability insurance, workers’ compensation insurance and health benefits insurance for participating school districts, while the West Valley Transportation Joint Powers Authority Group arranges for and provides transportation services for member school districts.

The relationship between the District and the Agencies is such that they are not a component unit of the District for financial reporting purposes. The Agencies have budgeting and financial reporting requirements independent of member units, and their financial statements are not presented in the District’s financial statements; however, fund transactions between the Agencies and the District are included in the District’s financial statements.

The District has appointed one member to the governing board of the Santa Clara County Schools’ Insurance Group and the West Valley Transportation Joint Powers Authority, respectively. During the year ended June 30, 2021, the District made payments of \$1,317,522 and \$51,936 to the Santa Clara County Schools’ Insurance Group and West Valley Transportation Joint Powers Authority, respectively.

Cyber Security

The District, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations. As a recipient and provider of personal, private or other electronic sensitive information, the District is potentially subject to multiple cyber threats including, but not limited to, hacking, viruses, malware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the District's systems for the purposes of misappropriating assets or information or causing operational disruption or damage.

The District was attacked by a ransomware threat actor in early January 2021 during which files on the District's servers and shared drives were encrypted. The District maintains insurance coverage for cyber security losses should a successful breach occur, and the District's insurance covered all aspects of recovering the encrypted data. The District has taken steps to tighten the security of its data systems to prevent future breaches.

No assurance can be given that the District's efforts to manage cyber threats and attacks will, in all cases, be successful or that any such attack will not materially impact the operations or finances of the District. The District is also reliant on other entities and service providers, such as the County Director of Finance for the levy and collection of property taxes securing payment of the Bonds and the Paying Agent in its role as paying agent. No assurance can be given that the District may not be affected by cyber threats and attacks against other entities or service providers in a manner which may affect the Registered Owners and Beneficial Owners, e.g., systems related to the timeliness of payments to the Registered Owners and Beneficial Owners.

DISTRICT FINANCIAL INFORMATION

It should not be inferred from the inclusion of the information in this section concerning the operations of the District and its finances that the principal of or interest on the Bonds is payable from the General Fund. The Bonds are payable from the proceeds of an ad valorem property tax, approved by the voters of the District pursuant to applicable laws and State Constitutional requirements, and required to be levied and collected by the County on all taxable property within the boundaries of the District in an amount sufficient for the timely payment of principal of and interest on the Bonds. See "SECURITY AND SOURCE OF PAYMENT" herein.

All tables in this section "DISTRICT FINANCIAL INFORMATION" are derived from the District's audited financial statements, interim financial reports or other information provided by the District unless a source is otherwise indicated.

Accounting Practices

The District accounts for its financial transactions in accordance with the policies and procedures of the State Department of Education's *California School Accounting Manual*, which, pursuant to Education Code Section 41010, is to be followed by all school districts in the State. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by GASB and the American Institute of Certified Public Accountants.

The District's financial statements consist of government-wide statements and fund-based financial statements. Government-wide statements, consisting of a statement of net position and a statement of activities, report all the assets, liabilities, revenue and expenses of the District and are accounted for using the economic resources measurement focus and accrual basis of accounting. The fund-based financial statements consist of a series of statements that provide information about the District's major and non-major funds. Governmental funds, including the General Fund, special revenues funds, capital project funds and debt service funds, are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available, while expenditures are recognized in the period in which the liability is incurred, if measurable. Proprietary funds and fiduciary funds are accounted for using the economic resources measurement focus and accrual basis of accounting. See "NOTE 1" in "APPENDIX A" attached hereto for a further discussion of applicable accounting policies.

The independent auditor for the District in fiscal year 2020-21 was Eide Bailly LLP, Palo Alto, California (the "Auditor"). The financial statements of the District as of and for the year ended June 30, 2021, are set forth in "APPENDIX A" attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not been engaged to perform and has not performed,

since the date of its report attached hereto, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

Budget and Financial Reporting Process

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

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

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

The school district budgeting process involves continuous planning and evaluation. Within the deadlines, school districts work out their own schedules for considering whether or not to hire or replace staff, negotiating contracts with all employees, reviewing programs, and assessing the need to repair existing or acquire new facilities. Decisions depend on critical estimates of enrollment, fixed costs, and commitments in contracts with employees as well as best guesses about how much money will be available for elementary and secondary education. The timing of some decisions is forced by legal deadlines. For example, preliminary layoff notices to certificated employees must be delivered by March 15, with final notices by May 15 (should the enacted State budget not increase funding per ADA by at least two percent, an additional layoff window for certificated employees is opened until August 15). This necessitates projecting enrollment and determining staffing needs long before a school district will know either its final financial position for the current year or its revenue for the next year.

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

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

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

Section 42127.1. Until a school district’s budget is approved, the school district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

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

The county superintendent must annually present a report to the governing board of the school district and the State Superintendent regarding the fiscal solvency of any school district with a disapproved budget, qualified interim certification, or negative interim certification, or that is determined at any time to be in a position of fiscal uncertainty, pursuant to Education Code Section 42127.6. Any school district with a qualified or negative certification must allow the county office of education at least 10 working days to review and comment on any proposed agreement made between its bargaining units and the school district before it is ratified by the school district board (or the state administrator). The county superintendent will notify the school district, the county board of education, the school district governing board and the school district superintendent (or the state administrator), and each parent and teacher organization of the school district within those 10 days if, in his or her opinion, the agreement would endanger the fiscal well-being of the school district. Also, pursuant to Education Code Section 42133, a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or the next succeeding fiscal year, non-voter approved debt unless the county superintendent of schools determines that the repayment of that debt by the school district is probable.

The filing status for each of the District’s interim reports for the previous five fiscal years appears in the following table.

**Certifications of Interim Financial Reports
Cambrian School District**

<u>Fiscal Year</u>	<u>First Interim</u>	<u>Second Interim</u>
2017-18	Positive	Positive
2018-19	Positive	Positive
2019-20	Positive	Positive
2020-21	Positive	Positive
2021-22	Positive	Positive

Financial Statements

Figures presented in summarized form herein have been gathered from the District’s financial statements. The audited financial statements of the District for the fiscal year ended June 30, 2021, have been included in “APPENDIX A” attached hereto. Audited financial statements and other financial reports for prior fiscal years are available on the EMMA website and are on file with the District and available for public inspection during normal business hours.

The following table sets forth the District's audited General Fund balance sheet data for fiscal years 2016-17 through 2020-21.

**General Fund Balance Sheet
Cambrian School District**

	2016-17 <u>Audited</u>	2017-18 <u>Audited</u>	2018-19 <u>Audited</u>	2019-20 <u>Audited</u>	2020-21 <u>Audited</u>
Assets					
Deposits and Investments	\$6,618,609	\$5,043,850	\$5,805,428	\$4,869,039	\$5,424,766
Receivables	558,116	293,244	1,262,449	2,107,028	7,423,862
Prepaid Items	4,477	280,741	198,941	385	4,245
Due from Other Funds	<u>67,748</u>	<u>0</u>	<u>0</u>	<u>2,508</u>	<u>0</u>
Total Assets	\$7,248,950	\$5,617,835	\$7,266,818	\$6,978,960	\$12,852,873
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$1,425,068	\$711,384	\$763,889	\$1,046,620	\$1,013,732
Due to Other Funds	0	1,935	0	0	0
Unearned Revenue	<u>2,955</u>	<u>0</u>	<u>9,250</u>	<u>0</u>	<u>2,327,054</u>
Total Liabilities	\$1,428,023	\$713,319	\$773,139	\$1,046,620	\$3,340,786
Fund Balances					
Nonspendable	\$5,877	\$282,141	\$200,341	\$1,785	\$5,645
Restricted	796,000	921,891	1,419,363	959,843	2,776,850
Assigned	0	0	3,782,783	3,778,133	0
Unassigned	<u>5,019,050</u>	<u>3,700,484</u>	<u>1,091,192</u>	<u>1,192,579</u>	<u>6,729,592</u>
Total Fund Balances	\$5,820,927	\$4,904,516	\$6,493,679	\$5,932,340	\$9,512,087
Total Liabilities and Fund Balances	\$7,248,950	\$5,617,835	\$7,266,818	\$6,978,960	\$12,852,873

The following table sets forth the District’s audited General Fund activity for fiscal years 2017-18 through 2020-21, estimated activity for fiscal year 2021-22 and budgeted activity for fiscal year 2022-23.

**General Fund Activity
Cambrian School District**

	2017-18 <u>Audited</u>	2018-19 <u>Audited</u>	2019-20 <u>Audited</u>	2020-21 <u>Audited</u>	2021-22 <u>Estimated</u>	2022-23 <u>Budgeted</u>
Beginning Balance	\$5,820,927	\$4,904,516	\$6,493,679	\$5,932,340	\$9,512,087	\$6,844,260
Other Restatements	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(\$897,298)</u>	<u>0</u>
Beginning Balance	\$5,820,927	\$4,904,516	\$6,493,679	\$5,932,340	\$8,614,789	\$6,844,260
Revenues						
Local Control Funding Formula	\$28,977,509	\$29,732,255	\$30,628,986	\$30,701,099	\$28,895,018	\$29,861,395
Federal Revenues	885,416	1,024,887	995,999	2,665,759	2,540,459	1,661,493
Other State Revenues	3,275,406	3,010,022	3,885,961	6,058,260	4,315,620	3,234,618
Other Local Revenues	<u>2,841,437</u>	<u>3,695,055</u>	<u>3,545,564</u>	<u>3,445,281</u>	<u>4,828,849</u>	<u>5,407,969</u>
Total Revenues	\$35,979,768	\$37,462,219	\$39,056,510	\$42,870,399	\$40,579,946	\$40,165,475
Expenditures						
Certificated Salaries	\$18,134,183	\$17,784,129	\$17,903,781	\$18,121,739	\$17,682,413	\$16,879,869
Classified Salaries	4,347,823	4,397,236	4,669,937	5,236,072	5,478,993	5,901,496
Employee Benefits	8,026,489	7,966,631	9,691,690	9,268,997	10,156,142	11,217,667
Books and Supplies	984,766	790,282	1,428,631	1,213,652	1,617,563	874,072
Services and Other Operating Exp.	4,994,312	5,434,778	6,229,490	5,551,627	7,756,906	5,336,084
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>	<u>70,106</u>	<u>0</u>	<u>0</u>
Total Expenditures	\$36,487,573	\$36,373,056	\$39,923,529	\$39,462,193	\$42,692,017	\$40,209,188
Other Financing Sources	(\$408,607)	\$500,000	\$305,680	\$171,541	\$341,541	\$341,541
Net Increase (Decrease)	(\$916,412)	\$1,589,163	(\$561,339)	\$3,579,747	(\$1,770,530)	\$297,828
Ending Balance	\$4,904,515	\$6,493,679	\$5,932,340	\$9,512,087	\$6,844,260	\$7,142,088

Figures may not total due to rounding.

The 2022-23 District Budget

The District Board approved the District’s budget for fiscal year 2022-23 (the “2022-23 District Budget”) at its meeting on June 16, 2022.

The 2022-23 District Budget estimates fiscal year 2021-22 General Fund revenues to be \$40.6 million, approximately \$1.8 million less than General Fund expenditures and net transfers. The General Fund ending balance as of June 30, 2022, is estimated to be approximately \$6.8 million, including approximately \$1.0 million of restricted funds and \$5.8 million of unrestricted funds.

For fiscal year 2022-23, the District has budgeted General Fund revenues to be \$40.2 million, approximately \$0.3 million more than General Fund expenditures and net transfers. The General Fund ending balance as of June 30, 2023, is budgeted to be approximately \$7.1 million, including approximately \$1.0 million of restricted funds and \$6.1 million of unrestricted funds.

Revenues

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

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

In landmark legislation effective fiscal year 2013-14, the State introduced a new school district funding formula, the local control funding formula or LCFF. LCFF consolidated most categorical programs in order to give school districts more control over how to spend their revenues. Under LCFF, school districts receive a uniform base grant per student based on grade span, a supplemental grant based on an unduplicated count of the targeted disadvantaged students ("unduplicated students") in the school district, and an additional concentration grant based on the number of unduplicated students in the school district above 55 percent, with qualifying schools receiving an additional necessary small school allowance. The base, supplemental, and concentration grant amounts per student were set in fiscal year 2012-13 and are subject to cost-of-living adjustments thereafter. School districts that would otherwise receive less funding under LCFF than they did under the revenue-limit system are also guaranteed an additional Economic Recovery Target ("ERT") grant to restore funding to at or above their pre-recession funding, adjusted for inflation.

LCFF was originally scheduled to be phased in over eight years through fiscal year 2020-21. To calculate LCFF funding during the phase-in period, school districts calculated their "funding gap," the difference between LCFF funding calculated at full implementation and their "funding floor," an amount based on fiscal year 2012-13 funding levels under the revenue limit system adjusted for prior LCFF phase-in adjustments. School districts received their funding floor plus a percentage of their funding gap as specified in the State budget. In fiscal year 2018-19, the State funded 100 percent of the remaining gap. See "FUNDING OF PUBLIC EDUCATION IN THE STATE" herein for more information about LCFF.

Set forth in the following table are the District’s funded ADA, the percentage of unduplicated student enrollment, total LCFF funding and average LCFF funding per ADA for fiscal years 2017-18 through 2020-21, estimated data for fiscal year 2021-22 and budgeted data for fiscal year 2022-23, all excluding charter school data.

**Funded ADA, Unduplicated Student Enrollment Percentage and Total LCFF Funding¹
Cambrian School District**

<u>Fiscal Year</u>	<u>Total Funded ADA</u>	<u>Unduplicated Student Enrollment Percentage</u>	<u>Total LCFF Funding</u>	<u>Average LCFF Funding per ADA²</u>
2017-18	1,031.98	20.30%	\$8,767,400	\$8,495.71
2018-19	1,028.84	18.79	9,440,104	9,175.48
2019-20	1,002.80	18.18	9,691,547	9,664.49
2020-21	949.74	17.06	9,234,759	9,723.46
2021-22 ³				
2022-23 ⁴				

¹Excluding charter schools operated by the District.

²Represents average LCFF funding per ADA across grade spans.

³Estimated.

⁴Budgeted.

The District operates four fiscally dependent charter schools. Set forth in the following table are the funded ADA, the percentage of unduplicated student enrollment, total LCFF funding and average LCFF funding per ADA for fiscal years 2017-18 through 2020-21, estimated data for fiscal year 2021-22 and budgeted data for fiscal year 2022-23 for the four District-operated charter schools.

**Funded ADA, Unduplicated Student Enrollment Percentage and Total LCFF Funding
District-Operated Charter Schools
Cambrian School District**

<u>Fiscal Year</u>	<u>Total Funded ADA</u>	<u>Unduplicated Student Enrollment Percentage</u>	<u>Total LCFF Funding</u>	<u>Average LCFF Funding per ADA¹</u>
2017-18	2,465.97	26.39%	\$19,216,788	\$7,792.79
2018-19	2,365.40	26.02	19,730,918	8,341.47
2019-20	2,334.77	27.01	20,086,064	8,603.02
2020-21	2,334.77	25.47	20,026,564	8,577.53
2021-22 ²				
2022-23 ³				

¹Represents average LCFF funding per ADA across grade spans.

²Estimated.

³Budgeted.

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

LCFF revenues were 78.4 percent of General Fund revenues in fiscal year 2019-20, were 71.6 percent of General Fund revenues in fiscal year 2020-21, are estimated to be 71.2 percent of General Fund revenues in fiscal year 2021-22 and are budgeted to be 74.3 percent of General Fund revenues in fiscal year 2022-23.

Federal Revenues. The federal government provides funding to the District under several programs, including the Individual with Disabilities Education Act and Title I, Title II and Title III. These federal revenues, most of which historically have been restricted, were 2.6 percent of General Fund revenues in fiscal year 2019-20, were 6.2 percent of General Fund revenues in fiscal year 2020-21, are estimated to be 6.3 percent of General Fund revenues in fiscal year 2021-22 and are budgeted to be 4.1 percent of General Fund revenues in fiscal year 2022-23. Included in federal revenues are approximately \$__ million, \$__ million and \$__ million of one-time COVID-19 related funding in fiscal years 2020-21, 2021-22 and 2022-23, respectively.

Other State Revenues. In addition to apportionment revenues, the State provides funding to the District for categorical programs including special education. These other State revenues were 9.9 percent of General Fund revenues in fiscal year 2019-20, were 14.1 percent of General Fund revenues in fiscal year 2020-21, are estimated to be 10.6 percent of General Fund revenues in fiscal year 2021-22 and are budgeted to be 8.1 percent of General Fund revenues in fiscal year 2022-23. Included in other State revenues are approximately \$__ million, \$__ million and \$__ million of one-time COVID-19 related funding in fiscal years 2020-21, 2021-22 and 2022-23, respectively. Also included in other State revenues are proceeds received from the State from the State lottery.

Other Local Revenues. Revenues from other local sources were 9.1 percent of General Fund revenues in fiscal year 2019-20, were 8.0 percent of General Fund revenues in fiscal year 2020-21, are estimated to be 11.9 percent of General Fund revenues in fiscal year 2021-22 and are budgeted to be 13.5 percent of General Fund revenues in fiscal year 2022-23. Included in other local revenues are proceeds of a parcel tax within the District (see “THE DISTRICT—Parcel Tax” herein) as well as leases of District property (budgeted at approximately \$1.2 million for fiscal year 2022-23).

Expenditures

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

At the time the District adopted the 2022-23 District Budget, the District had not completed negotiations with its certificated, classified or management staff to finalize salary and benefit increases for fiscal year 2022-23. As a result, the District did not include certificated, classified or management employee salary increases in its 2022-23 Adopted Budget. Each one percent increase in salary for certificated, classified or management staff would increase fiscal year 2022-23 expenditures by \$161,000, \$51,123 and \$40,169 respectively.

Employee salaries and benefits were 80.8 percent of General Fund expenditures in fiscal year 2019-20, were 82.7 percent of General Fund expenditures in fiscal year 2020-21, are estimated to be 78.0 percent of General Fund expenditures in fiscal year 2021-22 and are budgeted to be 84.6 percent of General Fund expenditures in fiscal year 2022-23.

Short-Term Borrowings

The District has in the past issued short-term tax and revenue anticipation notes. Proceeds from the issuance of notes by the District have been used to reduce inter-fund dependency and to provide the District with greater overall efficiency in the management of its funds.

The District has no short-term debt outstanding [nor any plans to issue any short-term debt].

Capitalized Lease Obligations

The District has made use of various capital lease arrangements under agreements that provide for title of items and equipment being leased to pass to the District upon expiration of the lease period.

As of June 30, 2021, the District had no capital lease arrangements outstanding.

Long-Term Borrowings

The District received authorization at an election held on November 5, 2002 (the “2002 Authorization”) to issue \$20,975,000 of general obligation bonds. On July 9, 2003, the County issued on behalf of the District \$15,524,912.20 principal amount of Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series A (the “Series A Bonds”). On April 27, 2005, the District issued \$5,450,031.80 principal amount of Cambrian School District (Santa Clara County, California) Election of 2002 General Obligation Bonds, Series B (the “Series B Bonds”). On September 17, 2013, the District issued the 2013 Refunding Bonds in the principal amount of \$11,510,000 to refinance a portion of the Series A Bonds. On September 23, 2014, the District issued \$1,415,000 principal amount of Cambrian School District (Santa Clara County, California) 2014 General Obligation Refunding Bonds (the “2014 Refunding Bonds”) to refinance a portion of the Series B Bonds.

The District received authorization at an election held on June 3, 2014 (the “2014 Authorization”) to issue \$39,000,000 of general obligation bonds. On September 23, 2014, the District issued \$39,000,000 principal amount of Cambrian School District (Santa Clara County, California) General Obligation Bonds, Election of 2014, Series 2014 (the “2014 Bonds”).

On April 8, 2021, the District issued the first series of bonds under the 2020 Authorization, the 2021 Bonds, in the aggregate principal amount of \$15,000,000.

The following table summarizes the District’s outstanding general obligation bond indebtedness as of August 1, 2022.

**Outstanding General Obligation Bonds
Cambrian School District**

<u>Authorization</u>	<u>Issue</u>	<u>Final Maturity</u>	<u>Principal Amount Issued</u>	<u>Principal Outstanding as of August 1, 2022¹</u>	<u>Debt Service in Fiscal Year 2022-23</u>
2002 Authorization	Series A	July 1, 2028	\$15,524,912	\$419,912	\$0
2002 Authorization	Series B	July 1, 2035	5,450,032	3,235,032	0
Refunding	2013 Refunding ²	July 1, 2026	11,510,000	4,745,000	1,199,450
Refunding	2014 Refunding	July 1, 2025	1,415,000	555,000	191,750
2014 Authorization	2014 Bonds	July 1, 2039	39,000,000	35,450,000	1,929,513
2020 Authorization	2021 Bonds	August 1, 2050	15,000,000	<u>13,355,000</u>	<u>2,053,694</u>
			Total	\$57,759,944	5,374,406

¹Excludes the accreted value of capital appreciation bonds.

²To be refunded with the proceeds of the Refunding Bonds.

The District has not defaulted on the payment of principal of or interest on any of its short-term indebtedness, capital lease obligations or long-term indebtedness in the past 20 years. All long-term indebtedness of the District as of June 30, 2021, is set forth in “APPENDIX A” attached hereto.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES

Background

From the Separation of Sources Act (1910) until Proposition 13 (1978), local governments had control over property tax rates and revenues within their jurisdiction. Voter approval was not required for most taxes, charges or fees imposed by local governments. Each school district in the State raised revenue by taxing local property owners according to a tax rate established by its governing board, subject to voter approval, and received some supplemental funds from the State. The State’s role in providing for public education and education facilities was limited during this time. Local school districts relied largely on general obligation bonds as the primary source of funding for school facilities.

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

Article XIII A of the State Constitution

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

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

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

The one percent tax is levied and collected by each county, and the revenue is apportioned by the county to each local government agency in the taxing area roughly in proportion to the relative shares of taxes as levied prior to 1979. Local government agencies, including school districts, may not directly levy any *ad valorem* property tax, unless the property tax is levied to pay debt service (interest and redemption charges) on a local government's indebtedness approved by voters prior to July 1, 1978, or, thereafter, as amended by Proposition 46 (1986), bonded indebtedness for the acquisition or improvement of real property approved by a two-thirds majority. In addition, Proposition 39 (2000) added a provision allowing for a lowered voter approval rate specifically for bonds to fund school facilities projects. A school district or community college district may levy *ad valorem* property taxes in excess of one percent with 55 percent voter approval if the bonds will be used for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities. The measure must include the specific list of projects to be funded and certification that the school district's governing board has evaluated safety, class size reduction, and information technology needs in developing the list, and must conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Pursuant to legislation, the projected tax rate per \$100,000 of taxable property value levied as the result of any single election may be no more than \$60 in a unified school district, \$30 in a high school or elementary school district, or \$25 in a community college district. The 2020 Authorization was conducted pursuant to Proposition 39.

Article XIII B of the State Constitution

Article XIII B, added to the State Constitution by Proposition 4 (1979), amended by Proposition 111 (1990), limits the amount of certain funds, including tax revenues, that may be annually appropriated by the State and local governments, including school districts, to the amount appropriated the prior year, adjusted to reflect the rate of economic growth by measuring the change in *per capita* personal income and population. Certain payments are exempt from the appropriations limit calculation, including debt service payments; certain benefit payments, mandated expenses, State payments to school districts and community college districts, increases in revenues gained from fuel, vehicle and tobacco taxes, emergency appropriations; and qualified capital outlay projects (projects involving fixed assets such as land or construction that have an expected life of more than 10 years and a value greater than \$100,000).

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

Articles XIII C and XIII D of the State Constitution

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

Article XIII C also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. A portion of the District's revenues are received annually from property taxes. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Director of Finance to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. There is no court case which directly addresses whether the initiative power may be used to reduce or repeal the *ad valorem* property taxes pledged to repay general obligation bonds. In the case of *Bighorn-Desert View Water Agency v. Virgil (Kelley)*, the California Supreme Court held that water service charges may be reduced or repealed through a local voter initiative subject to Article XIII C. The Supreme Court did state that it was not holding that the initiative power is free of all limitations. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Legislation adopted in 1997 provides that Article XIII C shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure that would constitute an impairment of contractual rights under the contracts clause of the United States Constitution.

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

As amended by Proposition 26 (2010), the law defines any levy, charge, or exaction of any kind imposed by a local government as a tax requiring voter approval. The following exceptions do not require voter approval: a reasonable charge for a specific benefit, privilege, product or service that is received only by the payor of the charge; a reasonable charge for regulatory costs of issuing a license or permit, performing an inspection or audit, or enforcing an order; a charge for use, rental, or purchase of government property; a charge, fine or penalty for violation of law; and assessments and property-related fees imposed as a condition of property development. Although such fees and charges levied by one taxing jurisdiction

do not directly impact the amount of revenue available to another taxing jurisdiction from *ad valorem* property taxes, if the ability to impose the fee or charge is restricted, it could indirectly impact such revenues.

Minimum Guarantee of State Funding for Education

Proposition 98 (1988), added Article XVI to the State Constitution, requiring that “from all State revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and higher education.” Known as the “minimum guarantee,” funding for K-14 school districts, made up of a combination of State general fund income tax revenues and local property tax revenues, must be the greater of either the same percentage of State general fund revenues as was appropriated in fiscal year 1986-87, or the amount actually appropriated to such school districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The minimum guarantee allocated each year, determined by a set of tests, is approximately 38 percent or more of State general fund revenues. The amount of the minimum guarantee is not finalized until the final economic analysis is completed for a fiscal year; if the revisions result in a higher minimum guarantee than was budgeted, the State makes a one-time “settle-up” payment and uses the increased minimum to calculate the subsequent year’s funding, as described below. If the revised minimum guarantee is lower than budgeted, the State can use the higher level or make mid-year adjustments to reduce funding.

“Test 1” (share of the State general fund) allocates approximately 38 percent of the State general fund revenue to K-14 school districts. Test 1, in which the amount of the minimum guarantee is based on the share of the State general fund revenue spent on K-14 education funding in fiscal year 1986-87, only applies if Test 2 or Test 3 (described below) does not result in additional funding for K-14 school districts. Test 1 has been used for the past several years.

“Test 2” (change in *per capita* personal income) provides that K-14 school districts receive the same amount of funding received in the prior year, adjusted for year-over-year statewide changes in K-12 attendance and *per capita* personal income. Test 2 is used if it results in more funding for K-14 school districts than Test 1 (unless Test 3 applies instead).

“Test 3” (change in general fund revenue) provides that K-14 school districts receive the same amount of funding received in the prior year, adjusted for year-over-year statewide changes in K-12 attendance and general fund revenue; this calculation is only used if the percentage change in *per capita* State general fund revenue is less than the change in *per capita* personal income.

In years of economic hardship, the State Legislature can suspend the minimum guarantee for a year by a two-thirds vote, which also triggers the maintenance factor obligation, to be restored in later years. Such suspension has only occurred twice, in fiscal years 2004-05 and 2010-11.

The State creates a maintenance factor obligation when Test 3 is operative or when the minimum guarantee is suspended. In any year in which Test 3 is used, the difference between the actual amount of funding provided and the amount that would have been appropriated, under the larger amount of either Test 1 or Test 2, is considered a “maintenance factor” credit to K-14 school districts, to be restored in future years when State revenue growth rebounds to exceed personal income. The State constitution requires the maintenance factor be paid off in annual amounts determined by formula, with stronger revenue growth generally requiring larger payments.

The State Legislature has the authority to spend more than the minimum guarantee, although any increase creates a higher minimum floor for the following year; this has occurred from time to time. At times, the State also has had outstanding one-time Proposition 98 obligations known as “settle-up” obligations. A settle-up obligation is created when the minimum guarantee increases midyear and the State does not make an additional payment within that fiscal year to meet the higher guarantee. The increased amount is used as the base for the following year’s minimum guarantee. Settle-up funds can be used for any educational purpose, including paying off other state one-time obligations, such as deferrals and mandates.

Community Redevelopment and Revitalization

Beginning with the Community Redevelopment Act (1945) under Article XVI of the State Constitution, amended over time, until the termination and dissolution of the program in 2011, a local government could improve an economically depressed area by creating a redevelopment agency (an “RDA”) to pay for development projects with the future increase in property tax revenue, or “tax increment,” attributable to the growth in assessed value of taxable property within the project area when the project was complete. However, the allocation of the tax increment to the local RDA caused a reduction in the one percent

countywide property tax levy for other local taxing agencies, including school districts, although *ad valorem* property taxes in excess of the one percent property tax levy collected for payment of debt service on school district bonds were not affected. Although a school district could negotiate with the RDA for “pass-through” payments of local tax revenues, because the State was replacing the school district’s lost tax revenue, there was little incentive for most school districts to negotiate for greater amounts of pass-through from the RDAs. The State’s share of reimbursements to such school districts soared into the hundreds of millions of dollars per year.

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

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

Limits on State Authority Over Local Tax Revenues

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

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

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

Temporary State Tax Increases

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

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

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

Enacted Budget Required for Disbursement of State Funds

In years in which the State Legislature has not enacted a budget by the required deadline, the fiscal year begins without an enacted budget, and the State has, in some cases, issued registered warrants or IOUs, to pay certain State employees' wages and State debts. In 1988, during such a budgetary impasse, a taxpayers' association argued that such warrants were not authorized without an enacted budget. In the case, known as *Jarvis v. Connell*, the State Court of Appeal held that without an enacted budget, State funds may not be disbursed unless the payment is authorized by the State Constitution, as a continuing appropriation, or by federal mandate. This could affect school district budgets to the extent that, if there is neither an enacted budget nor emergency appropriation, State payments owed to school districts could be delayed unless they are required as a continuing appropriation or federal mandate.

State and School District Budgetary Reserves

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

Proposition 2 (2014) addressed the need for long-term financial stability in the State in the face of economic volatility by dedicating funds to pay down the State's debt, changing the State's reserve policies, and creating a separate budget reserve for K-14 school districts called the Public School System Stabilization Account (the "PSSSA"). The law reduced legislative discretion over the timetable for the repayment of State debts and required that 1.5 percent of the State general fund be deposited into the BSA annually, plus an additional amount when the State experiences spikes in capital gains tax revenue in excess of eight percent of State general fund revenues. The PSSSA, also funded with capital gains spikes, is drawn upon when the Proposition 98 minimum guarantee exceeds available State general fund and property tax revenues. Through 2030, half of the funds deposited each year into the BSA must be used to pay fiscal obligations such as budget loans and unfunded State level pension plans. Funds may be withdrawn from the BSA only for a disaster-related emergency or a fiscal emergency (which occurs if estimated resources in the current or upcoming fiscal year are insufficient to keep spending at the level of the prior three budgets adjusted for inflation and population). In the case of a recession, only half of the funds can be withdrawn. As a result, a large amount of incremental gains in the State's general fund revenues are allocated to building reserves and repaying debt.

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

enrollment of 400,001 or more students must keep a minimum reserve of one percent. Many school districts attempt to keep their reserve levels higher than State minimum requirements.

Senate Bill 858 (2014), enacted as trailing legislation to the fiscal year 2014-15 State budget, required K-12 school districts, in the event of a deposit by the State to the PSSSA, to reduce total assigned and unassigned reserves in the following year to no more than twice its minimum reserve for economic uncertainties, ranging from one to five percent of expenditures depending on the size of the school district. Senate Bill 751 (2018), signed into law on October 11, 2017 and effective January 1, 2018, makes certain changes to the cap on school district reserves, increasing both the State PSSSA deposit amount required to trigger the reserve cap (to three percent of State general fund revenues appropriated for K-12 school districts), and increasing the cap on individual school district reserves (to 10 percent of combined assigned and unassigned ending general fund balances). In addition, basic aid school districts and small school districts with fewer than 2,501 students are exempted from the cap. County education officials can exempt a school district from the cap if the school district demonstrates extraordinary fiscal circumstances, including undertaking multi-year infrastructure or technology projects. A smaller reserve could affect the school district's financial condition in the event of an economic downturn. The District cannot predict when a deposit to the PSSSA might occur or whether future legislation will be enacted that changes this requirement.

School Facilities Funding

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

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

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

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

Impact of Future Legislation

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

predict whether or when the voters in the State or the State Legislature will approve further legislation that could restrict the District's sources of revenue or its ability to spend that revenue, or require the District to appropriate additional revenue.

FUNDING OF PUBLIC EDUCATION IN THE STATE

Sources of Revenue for Public Education

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

State Funding. Many school districts in the State receive the majority of their funds from the State. According to the State Legislative Analyst's Office (the "LAO"), State funding accounted for 59.7 percent of the State's K-12 public education funding in fiscal year 2018-19. There are three sources of State funds for K-12 public education: the Proposition 98 minimum guarantee, comprised of a combination of State general fund revenues and local property tax revenues, representing the majority (80 percent in fiscal year 2018-19) of State funding; additional State funds for targeted programs such as facilities and remaining categorical programs such as special education, nutrition, afterschool programs, and home-to-school transportation; and State lottery funds, a portion of which may only be used for instructional purposes. The Proposition 98 guaranteed minimum amount is set forth each year in the State budget. See "— The 2022-23 State Budget" herein.

Approximately 60 percent of the State's general fund revenue comes from personal income taxes, with capital gains taxes representing more than 10 percent of the State's general fund revenue in recent years. As a result, a downturn in the stock market may significantly impact the State's general fund. Because funding for education in the State depends on the amount of money available in the State general fund, the linkage can result in significant volatility in education funding. For instance, during the recession in fiscal year 2011-12, State general fund revenues available for education funding were approximately eight percent less than the amount available four years prior. Provisions added to the State Constitution and statutes in 2013 and 2014 attempt to provide funding stability to public education by capturing spikes in capital gains revenue to use for paying down debts and obligations and to create reserves. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES" herein.

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

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

Most public education funding from the State is provided through the LCFF, including approximately 80 percent of Proposition 98 funding for K-12 public education. As under the revenue limit system, school districts continue to receive funds based on the greater of prior year or current year ADA figures. Under LCFF, school districts across the State receive the same base grants for each grade span, based on ADA. In fiscal year 2022-23, the adjusted base grants are \$10,082 for kindergarten through third grade, \$9,270 for fourth through sixth grade, \$9,544 for seventh through eighth grade, and \$11,349 for ninth through twelfth grade. These figures include increases for class size reduction for kindergarten through third grade

and career technical education for ninth through twelfth grade. School districts and charter schools will receive an add-on to the LCFF entitlement equal to the transitional kindergarten add-on rate multiplied by the LEA's current year transitional kindergarten ADA.

School districts receive a supplemental grant of 20 percent of the base grant for each student in the school district who is low-income, English-learner, or foster youth. Enrollment counts are "unduplicated," such that students may not be counted as both English-learner and low-income (foster youth automatically meet the eligibility requirements for free or reduced-price meals, and are therefore not discussed separately). School districts with more than 55 percent enrollment of unduplicated students receive a concentration grant, an additional 65 percent of the base grant for each unduplicated student above the threshold, intended to address the additional academic challenges faced by such students when their peers are similarly disadvantaged. The supplemental and concentration grants are allocated so that as a school district's proportion of unduplicated students increases, so does its total funding allocation. A school district in which 100 percent of enrollment is unduplicated students will receive 49.25 percent more total LCFF funding than a school district with no unduplicated students. The supplemental and concentration grant amounts are based on the unduplicated count of pupils divided by the total enrollment in the school district, based on the fall P-1 certified enrollment report. School districts have broad discretion to decide how to spend the base grant. The supplemental and concentration grants must be used to increase or improve services to the population they are intended to serve, although some services may be provided school district - or site-wide.

The implementation of LCFF began in fiscal year 2013-14, with full implementation planned by fiscal year 2020-21, but was completed ahead of schedule in fiscal year 2018-19. Until full implementation occurred, the difference between the actual amount school districts received in a year and the target amount would receive at full implementation was referred to as the "funding gap." The funding gap was determined by the difference between the "funding floor," or amount of funding a school district received the prior year, and the target amount of funding the school district would receive at full implementation. The funding floor consisted of the deficated revenue limit for fiscal year 2012-13 divided by ADA multiplied by current year ADA, plus the sum of any categorical funding. Sufficient funding was available to fund 12 percent of the funding gap in fiscal year 2013-14, 33 percent of the remaining gap in fiscal year 2014-15, 53 percent of the remaining gap in fiscal year 2015-16, 57 percent of the remaining gap in fiscal year 2016-17, 43 percent of the remaining gap in fiscal year 2017-18, and 100 percent of the remaining gap in fiscal year 2018-19, bringing LCFF to full implementation in the sixth year of its implementation.

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

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

The State funds school districts in monthly installments based on calculations made in a series of three apportionments throughout the fiscal year. Each apportionment includes funding for the LCFF and for other State programs. The amount of each apportionment is based on calculations made by each school district and reviewed by its county office of education. The Advance Principal Apportionment ("Advance Apportionment"), certified by July 20, sets forth the amount the school district will receive for the year, paid in a series of installments from August through January. The First Principal Apportionment ("P-1 Apportionment"), certified by February 20, set forth a new calculation based on the school district's first period ADA determined as of December, for installments that will be paid to the school district from February through June. The Second Principal Apportionment ("P-2 Apportionment"), certified July 2, based on second period ADA determined as of April, recalculates the amount of the final installment for the fiscal year paid to the school district in July. At the close of the fourth quarter, a final annual recalculation ("Annual Apportionment") provides an updated estimate of the prior year's adjustment.

In addition, school districts receive a quarterly allocation of the tax revenue deposited in the EPA from the temporary tax increases associated with Proposition 30 and extended under Proposition 55. The funds in the EPA are allocated between K-12 school districts and community college districts by 89 percent and 11 percent, respectively, and entitlements are calculated based on the adjusted LCFF entitlement of the school district. The EPA funds received by an LCFF-funded school district

count towards the school district's LCFF funding entitlement; community-funded school districts also receive the \$200 per-pupil EPA funding. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND EXPENDITURES" herein.

The LCFF requires each school district to demonstrate that its spending decisions are producing the desired results of increased student performance as stated in each school district's own LCAP. Each school district must create its own annually updated LCAP with input from teachers, parents and the community, including the parents or guardians of unduplicated students. School districts must review and share the results to determine whether spending achieved the goals stated in the LCAP, for each school site and for the school district as a whole. All school districts must use the State's LCAP template. The LCAP must include a description of the annual goals to be achieved for each student group for each State priority, including the content standards adopted by the SBE. The LCAP of each school district is overseen and approved by the county superintendent.

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

Federal Funding. According to the LAO, federal revenue accounted for approximately 8.1 percent of the State's K-12 public education funding in fiscal year 2018-19. Most of these funds are designated for particular purposes. There are no unfunded federal education mandates; each is conditioned on a state's voluntary decision to accept federal program funds. The primary source of federal supplemental education funding is the Elementary and Secondary Education Act ("ESEA") (1965), enacted to address inequality in education. The previous authorization of ESEA, the No Child Left Behind Act ("NCLB") (2001), expanded the federal government's role and increased testing requirements to measure improvement. Most recently reauthorized under the Every Student Succeeds Act ("ESSA") (2015), responsibility for school improvement has been shifted to the states. ESSA provides funding through six programs: Title I grants, tied to student assessment, to assist economically disadvantaged children; Title II grants for professional development; Title III grants for ancillary student services; Title IV grants for research and training; Title V grants for state departments; and Title VI grants for special education. Another significant source of federal funding for school districts is the Education for All Handicapped Children Act ("EHA") (1975), enacted to support special education and related services, reauthorized by the Individuals with Disabilities Education Act ("IDEA") (1990). The largest of the law's three sections, Part B, authorizes grants to states and local school districts to offset special education costs.

Local Property Tax Revenue. According to the LAO, local property taxes revenue accounted for 20.8 percent of the State's K-12 public education funding in fiscal year 2018-19. Property taxes are constitutionally limited to one percent of the property's value, except to repay voter-approved debt.

Other Local Funds. According to the LAO, local miscellaneous revenue accounted for approximately 11.4 percent of the State's K-12 public education funding in fiscal year 2018-19. There are several types of revenue a school district may receive from other local sources, including developer fees, parcel taxes, property lease revenues, and private donations. A school district may levy developer fees on new residential or commercial development within the school district's boundaries to finance the construction or renovation of school facilities. A school district may, with two-thirds approval from local voters, levy special taxes on parcels to fund specific programs within the school district. A school district may lease or sell its unused sites or facilities as another source of revenue. A school district may also seek contributions, sometimes channeled through private foundations established to solicit donations from local families and businesses.

The State Budget Process

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

The annual budget cycle begins when the Governor releases a proposed budget in January for the next fiscal year, which starts each July 1 and ends June 30. The Governor releases a revised budget in May based on new projections regarding State revenues and feedback from the State Legislature and other constituents. The State Constitution requires that the State Legislature pass the Budget Act by June 15 by majority approval from both Houses. The Governor may reduce or eliminate

specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature.

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

The 2022-23 State Budget

[TO COME]

Future Budgets

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

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

LEGAL MATTERS

No Litigation

There is no action, suit or proceeding known by the District to be pending or threatened restraining or enjoining the sale or delivery of the Bonds, or in any way contesting or affecting the validity thereof or any proceeding of the District taken with respect to the issuance or sale of the Bonds, or the pledge or application of moneys or security provided for the payment of the Bonds, or the authority of the County to levy *ad valorem* property taxes to pay principal of and interest on the Bonds when due.

The District may be or may become a party to lawsuits and claims which are unrelated to the Bonds or actions taken with respect to the Bonds and which have arisen in the normal course of operating the District. The District maintains certain insurance policies which provide coverage under certain circumstances and with respect to certain types of incidents. In the opinion of the District, there currently are no claims or actions pending which could have a material adverse effect on the financial position or operations of the District. The District cannot predict what types of claims may arise in the future.

Legal Opinion

The proceedings in connection with the authorization, sale, execution and delivery of the Bonds are subject to the approval as to their legality of Parker & Covert LLP, Sacramento, California, Bond Counsel. The form of the legal opinion of Bond Counsel is attached hereto as "APPENDIX C—FORM OF OPINION OF BOND COUNSEL."

Bond Counsel's employment is limited to a review of the legal proceedings required for authorization of the Bonds and to rendering the aforementioned opinion. Bond Counsel has not been engaged by the District to undertake, and has not

undertaken, any responsibility for the accuracy, completeness, or fairness of this Official Statement, and the opinion of Bond Counsel will not extend to any documents, agreements, representations, offering circulars, official statements or other material of any kind concerning the Bonds that are not referred to in the aforementioned opinion. The fees of Bond Counsel are contingent upon the issuance and delivery of the Bonds.

Limitations on Remedies: Amounts Held in the County Pool

The opinion of Bond Counsel with respect to the enforceability of the rights of the Registered Owners and Beneficial Owners is qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditor's rights. Bankruptcy proceedings, if initiated, could subject the Registered Owners and Beneficial Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

A number of appeals are currently pending before the United States Court of Appeals for the First Circuit involving issues relating to the treatment and scope of special revenues in the insolvency proceedings of Puerto Rico. The decisions in these appeals may or may not affect the treatment or scope of special revenues in bankruptcy cases. It is not possible to predict the outcomes or the effects of the outcomes in these appeals, and the District cannot predict if or how the ruling in the pending appeals may affect the treatment or scope of special revenues in bankruptcy cases.

The County on behalf of the District is expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Bonds and may invest these funds in the County Pool, as described under the caption "SANTA CLARA COUNTY TREASURY POOL" herein and in "APPENDIX D—SANTA CLARA COUNTY TREASURY INVESTMENT POLICY" attached hereto. In the event the District or the County were to go into bankruptcy, a federal bankruptcy court might hold that the Registered Owners and Beneficial Owners are unsecured creditors with respect to any funds received by the District or the County prior to the bankruptcy, which may include taxes that have been collected and deposited into the Debt Service Fund, where such amounts are deposited into the County Pool, and such amounts may not be available for payment of the principal of and interest on the Bonds unless the Registered Owners and Beneficial Owners can "trace" those funds. There can be no assurance that the Registered Owners and Beneficial Owners could successfully so "trace" such taxes on deposit in the Debt Service Fund where such amounts are invested in the County Pool. The District Resolution and the Government Code require the County to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds.

Tax Matters

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

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

The amount, if any, by which the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and which is exempt from State personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons, or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest

rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

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

Certain requirements and procedures contained or referred to in the Paying Agent Agreement, the tax certificate to be entered into on the date of issuance of the Bonds (the “Tax Certificate”), and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2022 Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Parker & Covert LLP, Sacramento, California.

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

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

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

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

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

Legality for Investment in California

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

RATING

S&P Global Ratings, a division of S&P Global (“S&P”), has assigned a municipal bond rating of “___” to the Bonds. Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P. S&P may have obtained and considered information and material which has not been included in this Official Statement. Generally, rating agencies such as S&P base their ratings on information and material so furnished and on investigations, studies and assumptions made by them. The rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. The District has not undertaken any responsibility to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

MUNICIPAL ADVISOR

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

INDEPENDENT AUDITOR

The financial statements of the District as of and for the year ended June 30, 2021, have been audited by Eide Bailly LLP, Palo Alto, California and are set forth in “APPENDIX A—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2021” attached hereto. The District has not requested nor did the District obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. The Auditor has not been engaged to perform and has not performed, since the date of its report attached hereto, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Official Statement.

UNDERWRITING AND INITIAL OFFERING PRICE

Following a competitive sale process, the Series 2022 Bonds will be purchased by _____ (the “Series 2022 Underwriter”) pursuant to a bond purchase agreement (the “Series 2022 Bond Purchase Agreement”) by and between the District and the Series 2022 Underwriter, at a price of \$_____ (equal to the principal amount of the Series 2022 Bonds of \$_____, plus a net original issue premium of \$_____, less an underwriting discount of \$_____). The Series 2022 Underwriter’s obligation to purchase the Series 2022 Bonds is subject to certain terms and conditions set forth in the Series 2022 Bond Purchase Agreement.

Following a competitive sale process, the Refunding Bonds will be purchased by _____ (the “Refunding Underwriter” and, together with the Series 2022 Underwriter, the “Underwriters”) pursuant to a bond purchase agreement (the “Refunding Bond Purchase Agreement” and, together with the Series 2022 Bond Purchase Agreement, the “Bond Purchase

Agreements”) by and between the District and the Refunding Underwriter, at a price of \$_____ (equal to the principal amount of the Refunding Bonds of \$_____, plus a net original issue premium of \$_____, less an underwriting discount of \$_____). The Refunding Underwriter’s obligation to purchase the Refunding Bonds is subject to certain terms and conditions set forth in the Refunding Bond Purchase Agreement.

The District expects the Underwriters to offer the Bonds to the public at the initial offering prices and yields stated on the inside cover pages hereof. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than said public offering prices. The offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE

The District will covenant for the benefit of the Underwriters, the Registered Owners and the Beneficial Owners of the Bonds to annually provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than nine months after the end of the fiscal year, commencing with the report for fiscal year 2021-22 (which is due no later than March 31, 2023), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of certain enumerated events will be filed by the District with the MSRB through the EMMA website. The specific nature of the information to be contained in the Annual Report and the notices is specified in “APPENDIX B—FORM OF CONTINUING DISCLOSURE CERTIFICATE” attached hereto. These covenants are being made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the “Rule”).

The District has implemented procedures to assist in complying with its continuing disclosure undertakings. Such procedures have been amended in response to two new event notices that were added effective February 27, 2019 to the list of events for which notice is required by the Rule. [As of the date of this Official Statement, the District believes that it has made all required filings in the past five years for currently outstanding issues in connection with prior undertakings under the Rule.]

ADDITIONAL INFORMATION

Additional information concerning the District, the Legal Documents or other matters concerning the sale and delivery of the Bonds may be obtained by contacting Cambrian School District, 4115 Jacksol Drive, San Jose, California 95124, telephone (408) 377-2103, Attention: Chief Financial Officer or by contacting the Municipal Advisor, Government Financial Strategies inc., 1228 N Street, Suite 13, Sacramento, California 95814-5609, telephone (916) 444-5100.

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

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

Cambrian School District

By: _____
Kristi Schwiebert
Superintendent

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APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2021

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APPENDIX B

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[TO COME]

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

[TO COME]

APPENDIX D

SANTA CLARA COUNTY TREASURY INVESTMENT POLICY

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4.8 TREASURY INVESTMENT POLICY

4.8.1 Statement of Intent

The purpose of this document is to set forth the County of Santa Clara's policy applicable to the investment of short-term surplus funds. In general, it is the policy of the County to invest public funds in a manner that will provide a competitive rate of return with maximum security while meeting the cash flow requirements of the County, school districts and special districts whose funds are held in the County Treasury, in accordance with all state laws and County ordinances governing the investment of public funds.

4.8.2 Scope

This investment policy applies to all financial assets held by the County. Those assets specifically included in this investment policy are accounted for in the County's Comprehensive Annual Financial Report and are included here as part of the County's Commingled Investment Pool.

4.8.3 Objectives

The following investment objectives shall be applied in the management of the County's funds.

- (A) The foremost objective of the County's investment program shall be to safeguard principal. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- (B) The secondary objective shall be to meet the liquidity needs of its participants. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
- (C) The third objective shall be to attain a market rate of return (yield) throughout budgetary and economic cycles, taking into account the County's investment constraints and cash flow characteristics. The core of investments will be limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Risk Mitigation

Those factors that can lead to an unexpected financial loss can be broadly grouped into the following categories: credit risk, liquidity risk, interest rate risk and operational risk. Credit risk is the possibility that a bond issuer will default or that the change in the credit quality of counterparty will affect the value of a security. Liquidity risk for a portfolio that does not market value its holdings on a daily basis is the risk that sufficient cash or cash equivalents are not available and a security may have to be sold at a loss (based on its original cost) in order to meet a payment liability. Interest rate risk is the risk that the value of a fixed income security or portfolio will fall as a result of an increase in interest rates. Operational risk refers to potential losses resulting from inadequate systems, management failure, faulty controls, fraud and human error.

It is part of this policy to pursue the listed actions below to reduce the risk of exposure to the County's investments.

Credit Risk

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
- Only purchasing securities that meet ratings standards specified in this policy.
- Conducting ongoing reviews as needed of all credit exposures within investment portfolios.
- Rating restrictions for all investments are denoted as requirements at time of purchase. If a security should incur a downgrade by either rating agency, placing the security on special surveillance to identify and monitor any continuing deterioration trends and, if warranted, selling the security.
- Reviewing the possible sale of a security whose credit quality is declining to minimize loss of principal.

Liquidity Risk

- To the extent possible, matching investment maturities with anticipated cash demands, also known as creating static liquidity. Alternatively, apply application software to analyze and validate that cash from investment activity is sufficient to cover all liabilities.
- Since all possible cash demands cannot be anticipated, maintaining portfolios largely of securities with active secondary or resale markets (dynamic liquidity).
- Making investments that could be appropriately held to maturity without compromising liquidity requirements.
- Prior to approving or disapproving a withdrawal request (a reduction of liquidity), the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool.

Interest Rate Risk

- Not investing in securities maturing more than five years from the settlement date unless the issuer is an Federal Agency of the United States or the credit is backed by the full faith and credit of the United States Government and the underlying remaining weighted average life of the debt security is less than five years at time of purchase.
- Limiting the weighted average maturity of the County's Commingled portfolio to three years or less.

- Limiting segregated investments to maturities of five years or less unless a longer term is specifically approved by the appropriate legislative body.
- Not investing in any funds in financial futures, option contracts, inverse floaters, range note or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- Ensuring that adequate resources are devoted to interest rate risk measurement.

Operational Risk

- Establishing a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.
- Having an audit review to examine the system of internal controls to assure that established policies including risk management procedures are being complied with.

4.8.4 Standards of Care

(A) **Prudence.** The County Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the County Treasurer shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that prudent person acting in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the County and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, the County Treasurer is authorized to acquire investments as authorized by law.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The County recognizes that no investment program is totally riskless and that the investment activities of the County are a matter of public record. Accordingly, the County recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that the portfolio is adequately diversified and that the sale of a security is in the best long-term interest of the County. Significant adverse credit changes or market price changes on County-owned securities shall be reported to the Board of Supervisors and the County Executive in a timely fashion.

(B) **Competitive Transactions.** Where practicable, each investment transaction shall be competitively transacted with brokers/dealers/banks approved by the County Treasurer.

(C) **Indemnification.** Investment officers acting in accordance with state laws, County ordinances, this policy and written procedures, and exercising due diligence shall be relieved of

personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development.

(D) **Ethics and Conflicts of Interest.** County employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment personnel shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

County officers and employees involved with the investment process shall refrain from accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

Members of the Treasury Oversight Committee shall not accept any honoraria, gifts or gratuities from advisors, brokers, dealers, bankers or other persons with whom the County Treasury conducts business that would be reportable under the FPPC regulations, or prohibited under any applicable law or policy.

4.8.5 Authorized Financial Dealers and Institutions

The County Treasurer shall establish an approved list of brokers, dealers, banks and direct issuers of commercial paper to provide investment services to the County. It shall be the policy of the County to conduct security transactions only with approved institutions and firms. To be eligible for authorization, firms that are commercial banks must be members of the FDIC, and broker/dealers:

- Preferably should be recognized as a Primary Dealer by the Market Reports Division of the Federal Reserve Bank of New York, and
- Must maintain a secondary position in the type of investment instruments purchased by the County.

In addition, the firm must also qualify under SEC Rule 15C3-1 (Uniform Net Capital Rule). Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of California.

The criteria for selecting security brokers and dealers from, to, or through whom the County Treasury may purchase or sell securities or other instruments, prohibits the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to any member of the governing board of any local agency that is a participant in the County Treasury or any candidate for those offices.

No public deposit shall be made except in a qualified public depository as established by state law. An annual analysis of the financial condition and professional institution/bank rating will be conducted by the County Treasurer and reported to the County Treasury Oversight Committee. Information indicating a material reduction in ratings standards or a material loss or prospective loss of capital must be shared with the Board of Supervisors, the County Executive, and the Oversight Committee in writing immediately.

To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code.

4.8.6 County Treasury Oversight Committee

A County Treasury Oversight Committee shall be established by the Board of Supervisors pursuant to Government Code Section 27130 et seq to advise the County Treasurer in the management and investment of the Santa Clara County Treasury. The Oversight Committee shall be comprised of six members representing the County, school districts and other local government agencies whose funds are deposited in the County’s commingled pool and other segregated investments. Members of the Oversight Committee will be nominated by the Treasurer and confirmed by the Board of Supervisors. The Committee is comprised of the following members:

- (1) County Director of Finance.
- (2) County Executive appointed by the Board of Supervisors.
- (3) Representative appointed by a majority of the presiding officers of the legislative bodies of the special districts in the County that are required or authorized to deposit funds in the County Treasury.
- (4) County Superintendent of Schools or his or her designee.
- (5) Representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the County.
- (6) One member of the public that has expertise in and or an academic background in public finance.

Each member may designate an alternate to serve in the absence of the member. The alternate shall take the oath of office and file a conflict of interest report with the Clerk of the Board. The alternate shall exercise the vote of the member at meetings where the member is not present.

It is the responsibility of the County Treasury Oversight Committee to approve the investment policy prepared annually by the County Treasurer, to review and monitor the quarterly investment reports prepared by the County Treasurer, to review depositories for County funds

and broker/dealers and banks as approved by the County Treasurer, and to cause an annual audit to be conducted to determine the County Treasury's compliance with all relevant investment statutes and ordinances, and this investment policy. Any receipt of honoraria, gifts, and gratuities from advisors, brokers, and dealers, bankers or other persons with whom the County Treasury conducts business by any member of the County Treasury Oversight Committee is limited to amounts that would not be reportable to the Fair Political Practices Commission. These limits may be in addition to the limits set by a committee member's own agency or by state or local law or policy.

Nothing in this article shall be construed to allow the County Treasury Oversight Committee to direct individual investment decisions, select individual brokers, or dealers, or impinge on the day-to-day operations of the County Treasury.

4.8.7 Eligible, Authorized and Suitable Investments

All investments shall conform with state law including but not limited to Government Code 53600 et seq and any further restrictions imposed by this policy (Authorized Investments). Where this section specifies a percentage limitation for a particular category of investment or specific issuer, that percentage is applicable only at the date of purchase. If subsequent to purchase, portfolio percentage constraints are above the maximum thresholds due to changes in value of the portfolio or changes due to revisions of the policy, then affected securities may be held to maturity in order to avoid principal losses. However, the County Treasurer may choose to rebalance the portfolio if percentage imbalances are deemed to impair portfolio diversification.

If after purchase securities are downgraded below the minimum required rating level the securities shall be reviewed for possible sale within a reasonable amount of time after the downgrade. Significant downgrades and the action to be taken will be disclosed in the Quarterly Investment Report.

U.S. Treasury and Government Agencies. There shall be no limit in the amount that may be invested in debt obligations that are backed by the full faith and credit of the United States government. This includes but is not limited to U.S. Treasury bills, notes or bonds. However, this does not include Medium-Term Corporate Notes or Deposit Notes, as described below.

There shall be no limit in the amount that may be invested in Federal Agencies of the United States or United States government sponsored-enterprise obligations, participations, and bond issuances including those issued by or fully guaranteed as to principal and interest by federal agencies or the United States government.

Repurchase Agreements. A repurchase agreement consists of two simultaneous transactions under the same agreement. One is the purchase of securities by an investor (County Treasury) from a bank or dealer. The other is the commitment by the bank or dealer to repurchase the securities at a specified price and on a date mutually agreed upon.

Repurchase agreements shall be entered into only with dealers and financial institutions which have executed a Master Repurchase Agreement with the County and are recognized as primary dealers with the Market Reports Division of the Federal Reserve Bank of New York.

- The term of the repurchase agreement is limited to 92 days or less. The securities underlying the agreement may be obligations of the United States Government, its agencies, or agency mortgage backed securities. For repurchase agreements that exceed 15 days, the maturities on purchased securities may not exceed 5 years.
- The purchased securities shall have a minimum market value, including accrued interest, of 102 percent of the dollar value of the agreement. Purchased securities shall be held in the County's custodian bank as safekeeping agent, and the market value of the securities shall be marked-to-market on a daily basis.

Reverse Repurchase Agreements. A reverse repurchase agreement consists of two simultaneous transactions under the same agreement. One is the sale of securities by the County Treasury to a bank or dealer. The other is the commitment by the County Treasury to repurchase the securities at a specified price and on a date mutually agreed upon.

Reverse repurchase agreements may only be transacted with dealers and financial institutions which have executed a Master Repurchase Agreement with the County as approved by the Board of Supervisors, and which are Primary Dealers of the Federal Reserve Bank of New York.

Reverse repurchase transactions must meet the following requirements:

- Sold securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.¹
- The term of the reverse repurchase agreement is not to exceed 92 days unless the agreement includes a written codicil that guarantees a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Funds obtained through a reverse repurchase agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement unless the reverse repurchase agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement and the final maturity date of the same security.
- Reverse repurchase agreements may only be used to effect a "matched" transaction whereby the proceeds of the reverse are reinvested for approximately the same time period as the term of the reverse repurchase agreement.
- Reverse repurchase agreements may not exceed \$90 million.

¹ Base value of the County's Pool refers to the dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements or securities lending agreements.

- Investments in reverse repurchase agreements in which Treasury sells securities prior to purchase with a simultaneous agreement to repurchase the security may only be made upon prior approval of the Board of Supervisors.

Reverse Repurchase Agreements will be used solely for the intent of accessing liquid funds on a temporary basis and will not be used as a means to amplify portfolio returns.

All other cost effective means of obtaining liquidity will be considered prior to exercising this option.

In exception to the above, a trial transaction will be permitted on a periodic basis as emergency preparation to ensure that internal systems and staff members remain up-to-date on processing procedures. The amount of the trial transaction will not exceed pre-established limits set by the Treasurer.

Securities Lending. The mechanics behind a securities lending transaction consist of the County lending a security. The borrower, a financial institution, pledges collateral consisting of cash to secure the loan. Borrowers sometimes offer letters of credit as collateral. The lending agreement requires that the collateral must always exceed the market value of the security by 2%. Changes in the security's price during the term of the loan may require adjustments in the amount of collateral. The cash collateral obtained from the borrower is then invested in short-term assets for additional income. Also, the County is entitled to all coupon interest earned by the loaned security. At the end of the loan term, the transaction is unwound, the securities and collateral, which are held by a custodian bank, are returned to the original owners. The borrower is obliged to return the securities to the lender, either on demand from the County or at the end of any agreed term. Lending transactions must meet the following requirements:

- Loaned securities must be owned and fully paid a minimum of 30 days prior to transaction.
- The total of all reverse repurchase and securities lending agreements cannot exceed 20% of the portfolio's base value.
- The term of the securities lending agreement is not to exceed 92 days.
- Funds obtained through a securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the securities lending agreement.
- The objective of the transaction is to produce positive earnings.

To qualify as a counter-party to the County in a securities lending transaction, the broker/dealer must be recognized as a Primary Dealer by the Federal Reserve Bank and the County's custodial bank must indemnify the County against losses related to the broker-dealer.

Non-negotiable Time Deposits (CDs) that are FDIC Insured and Collateralized Time Deposits. Time deposits with banks or savings and loan associations shall be subject to the limitations imposed by the Government Code, as amended, and additional constraints prepared

by the County Treasurer that would limit amounts to be placed with institutions based on creditworthiness, size, market conditions and other investment considerations.

Negotiable Certificates of Deposit. The bank issuing a negotiable certificate of deposit with a maturity of one year or less, must reflect the following or higher ratings from at least two of these *nationally recognized statistical rating organizations* (NRSRO's): Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Certificates that exceed one year, must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Negotiable certificates of deposit shall not exceed 30% of the surplus funds of the portfolio. No more than 5% of the portfolio shall be in a single bank.

Bankers' Acceptances. Investments in eligible bankers' acceptances of United States or foreign banks shall not exceed 180 days maturity from the date of purchase. This debt must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). Bankers' Acceptances shall not exceed 40% of surplus funds. No more than 5% of the portfolio shall be invested in a single commercial bank.

Commercial Paper. Investments in commercial paper shall not have a maturity that exceeds 270 days. Commercial paper must reflect the following or higher ratings by at least two of these NRSRO's: Moody's (P1), Standard and Poor's (A1), and Fitch (F1). The issuer must meet the qualifications as indicated below pursuant to California Government Code:

If the commercial paper is short-term unsecured promissory notes issued by financial institutions or corporations, the issuer must:

- Be organized and operating in the United States as a general corporation;
- Have total assets in excess of five hundred million dollars (\$500,000,000); and
- If the issuer has senior debt outstanding, the senior debt must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3) Standard and Poor's (A-) and Fitch (A-).

If the commercial paper is asset backed, the issuer must:

- Be organized within the United States as a special purpose corporation, trust, or limited liability company; and
- Have program-wide credit enhancements including, but not limited to, over collateralization, letters of credit or surety bonds and include a liquidity vehicle.

Commercial paper shall not exceed 40% of the local agency's funds. No more than 5% of the portfolio shall be invested in any single issuer of commercial paper.

Medium Term Corporate Notes or Deposit Notes. The purchase of corporate notes shall be limited to securities that reflect the following ratings or higher by at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-), and Fitch (AA-). Medium term corporate notes or deposit notes (five years or less) shall be limited to 30% of surplus funds. No more than 5% of the portfolio shall be invested in any single corporation including those issuers whose debt is

fully guaranteed as to principal and/or interest by federal agencies or the United States government.

Local Agency California Investment Fund (LAIF). Funds may be invested in LAIF, a State of California managed investment pool up to the maximum dollar amounts in conformance with the account balance limits authorized by the State Treasurer.

Municipal Obligations. The purchase of municipal obligations shall include the following:

(A) **Treasury notes or bonds of the state of California**, including other obligations such as registered state warrants, certificates of participation, lease revenue bonds and bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

(B) **Bonds, notes, warrants, certificates of participation, lease revenue bonds or other evidences of indebtedness of any local agency within this state**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

(C) **Registered treasury notes or bonds of any of the other 49 United States in addition to California**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.

For those instruments that are rated, long-term obligations must reflect the following ratings or higher by at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-). Short term obligations must carry the following ratings or higher by at least one of these NRSRO's: Moody's (MIG-1), Standard and Poor's (SP-1), and Fitch (F-1). No more than 10% of surplus funds shall be in such obligations.

Money Market Funds. Companies issuing such money market funds must have assets under management in excess of \$500,000,000. The advisors must be registered with the Securities and Exchange Commission (SEC) and have at least five years' experience investing in such types of investments. The fund must reflect the highest rating by at least two of these NRSRO's: Moody's (Aaa), Standard and Poor's (AAA), and Fitch (AAA). No more than 20% of the Treasury's funds may be invested in money market funds and no more than 10% of the Treasury's funds may be invested in one money market fund. If the money market fund is tax-exempt then only one "AAA" rating by an NRSRO is required. The money market fund must also be "no-load", which is a fund that does not compensate sales intermediaries with a sales charge or commission that is deducted from the return of the fund.

Asset Backed Securities. Asset backed securities (ABS) are notes or bonds secured or collateralized by pools of loans such as installment loans or receivables.

- The asset backed security itself must reflect the following ratings or higher from at least two of these NRSRO's: Moody's (Aa3), Standard and Poor's (AA-) and Fitch (AA-).

- Asset backed securities together with mortgage backed securities may not exceed 20% of the Treasury's surplus money.

Agency Mortgage Backed Securities. Mortgage backed securities (MBS) are-collateralized by pools of conforming mortgage loans or multi-family mortgage loans insured by FHLMC or FNMA and or guaranteed by FHA (GNMA).

- Agency mortgage backed securities together with asset backed securities may not exceed 20% of the Treasury's surplus money.

Supranational Debt Obligations. United States dollar-denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development of the World Bank (IBRD) or the Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments must be rated "AAA" by at least two of the following, NRSRO's, Moody's, Standard and Poor's or Fitch and shall not exceed ten percent, in aggregate, of the Treasury's surplus funds.

General Parameters

Socially Responsible Investments

Whenever possible, in addition to and subordinate to the objectives set forth in section 4.8.3 herein, it is the County's policy to create a positive impact by investing in socially responsible corporations and agencies as defined by priorities set by the Board of Supervisors.

Ineligible Investments

Ineligible investments include common stock, inverse floaters, range notes, mortgage-derived interest only strips and any security that could result in zero interest accrual if held to maturity or any security that does not pay (cash or earn accrued) interest in one year or at least semi-annually in subsequent years and any investment not authorized by this policy unless otherwise allowed by law and approved by the Board of Supervisors.

Combined Issuer/Institutional Limits.

No more than 5% of the portfolio shall be invested in aggregate of any single institution of the following types: Bankers Acceptances, Commercial paper, Negotiable Certificates of Deposit, and Corporate Notes.

Swaps

Investments will be reviewed for the possibility of a swap to enhance yield when both securities have a similar duration so as not to affect the cash flow needs of the program. Swaps should have a minimum of five basis points before being transacted.

4.8.8 Maximum Maturity

The County Investment portfolio shall be structured to provide that sufficient funds from investments are available to meet the anticipated cash needs of the depositors in the County's commingled investment pool. The choice of investment instruments and maturities shall be based on an analysis of depositors cash needs, existing and anticipated revenues, interest rate trends and specific market opportunities. The average weighted maturity of the portfolio will not exceed three years and investments will have a maturity of no more than five years from the settlement date unless specifically approved by the Board of Supervisors or the provisions set forth elsewhere in this policy.

4.8.9 Segregated Investments (excludes Commingled Funds)

Segregated investments of instruments permitted in Government Code Section 53601 can be made upon proper authorization where cash flow or other factors warrant segregation from the commingled pool. Examples that may justify such segregation are bond or note proceeds, Retiree Health funds or Workers Compensation funds where longer term or matching term investments are warranted.

For segregated investment funds, no investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements.

Segregated investments shall be limited to five years maturity unless a longer term is specifically approved by the appropriate legislative body.

Government Code Sections 53620 and 53622 grant the County authority to invest the assets of the Santa Clara County Retiree Health Trust in any form or type of investment deemed prudent by the governing body. Accordingly, the County Board of Supervisors has determined that up to 67 percent of the Trust's assets, excluding near-term liability pay-outs, may be invested in equities through mutual funds or through the direct purchase of common stocks by a money management firm(s) approved by the Board of Supervisors.

In accordance with the prudent person standard in Government Code Sections 53620 through 53622, the assets of the Santa Clara County Retiree Health Trust may be invested in bonds that have a final maturity of 30 years or less from purchase date, and in bonds that reflect the following ratings or higher from at least two of these NRSRO's: Moody's (A3), Standard and Poor's (A-), and Fitch (A-).

4.8.10 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held in the name of the County by a custodian designated by the County Treasurer and evidenced by trade confirmations and safekeeping holdings reports.

The County Treasurer will approve certain financial institutions on an annual basis to provide safekeeping and custodial services for the County. Custodian banks shall be selected on the basis

of their ability to provide service to the County's account and the competitive pricing of their safekeeping related services. All securities purchased by the County under this section shall be properly designated as an asset of the County and held in safekeeping by a custodial bank chartered by the United States Government or the State of California. The County will execute custodial agreement(s) with its bank(s). Such agreements will outline the responsibilities of each party for the notification of security purchases and sales, address wire transfers as well as safekeeping and transaction costs, and provide details on procedures in case of wire failures or other unforeseen mishaps along with the liability of each party.

To be eligible for designation as the County's safekeeping and custodian agent, a financial institution shall meet the following criteria:

- Have a Moody's rating of P-1 or Standard and Poor's rating of A-1 for the most recent reporting quarter before the time of selection.
- Qualify as a depository of public funds in the State of California as defined in Government Code Section 53638.

The County Treasurer shall require each approved custodial bank to submit a copy of its Consolidated Report of Condition and Income (Call Report) to the County within forty-five days after the end of each calendar quarter.

It is the intent of the County to mitigate custodial credit risk by insuring that all securities are appropriately held.

Securities typically clear and settle as electronic book entries through the following clearinghouses: (1) the Depository Trust Corp. (DTC), a member of the Federal Reserve Bank; or (2) the Fed Book-Entry System, owned by the Federal Reserve. Governments generally do not have their own account in the Fed Book-Entry System or at DTC, but have access to those systems through large financial institutions who are members and participants. The County's securities within the clearing system are held under the Custodial Bank's name. The Custodial Bank's internal records identify the County as the underlying beneficial owner of securities.

Infrequently, physical certificates are used to reflect ownership of a security. When physical securities are received by the Custodial Bank, they are sent to a transfer agent to be registered into the Custodial Bank's nominee name. It is kept in the bank's vault until redeemed or sold. The Custodial Bank records identify the County as the underlying beneficial owner and include the securities on the County's Safekeeping report.

4.8.11 Internal Controls and Accounting

The County shall establish a system of internal controls, which is designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the County.

The County maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the County in accordance with Generally Accepted Accounting Principles as promulgated by the Government Accounting Standards Board.

The County shall establish a process for an annual review by either the County's internal or external auditor. This review will examine the system of internal controls to assure that the established policies and procedures are being complied with and many result in recommendations to change operating procedures to improve internal control.

4.8.12 Reporting

(A) Methods.

(i) The County Treasurer shall prepare an investment report quarterly, including a management summary that provides a clear status of the current investment portfolio, quarterly transactions, investment philosophy and market actions and trends. The management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Supervisors, the County Executive, the County Treasury Oversight Committee, Internal Auditor, and local agencies with funds on deposit in the County pool. The report will include the following:

- A listing of individual securities by type of investment and maturity held at the end of the reporting period.
- A composite of transactions purchased during the reporting period by type of security.
- Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost of market value of securities.
- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- A summary of purchases during the reporting period by broker/dealers or banks showing the purchase date, issuing agency, amount purchased, cost and purchase date.
- A statement denoting the ability of the County to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not, be available.

(ii) The County Treasurer shall prepare a monthly report with a brief summary of the investment report and a listing of the transactions conducted during the month. The report will be provided to the Board of Supervisors, Treasury Oversight Committee and the local agencies with funds on deposit in the County Pool.

Material deviations from projected budgetary investment results shall be reported no less frequently than quarterly to the Board of Supervisors and the County Executive.

(B) Performance Standards.

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates, taking into account the County's investment risk constraints and cash flow needs.

The basis for measurement used to determine whether market yields/rate of return are being achieved shall be the State Treasurer's Local Agency Investment Fund (LAIF). It should be recognized, however, that since the investment parameters of LAIF are broader than the County's investment policies, the returns realized by the County cannot necessarily be expected to exceed the returns realized by LAIF on a regular basis.

(C) The County utilizes the following methods to pay for banking services and County administration of the investment function:

General Banking Services. General banking services such as safekeeping, items deposited, statements, account maintenance, etc., may be paid to the bank through direct payment or a combination of direct payment and compensating balance.

Investment and Banking Administration Costs. The County recovers staffing and other costs relating to the County's administration services for banking and investment functions provided to the County Treasury. The administrative costs are allocated against the earnings of the County pool prior to apportionment of earnings.

Earnings Apportionment. Earnings of the County pool are apportioned quarterly to all participants of the pool based on the average daily balance of each fund during the quarter.

Realized capital gains (the gain from securities sold at a higher price compared to cost) are added to quarterly earnings. Realized capital losses (the loss from securities sold at a lower price compared to cost) reduce quarterly earnings. To the extent that a realized capital loss exceeds the quarterly aggregate earnings of the Pool, the loss will be shared across all funds. The size of the write-down for any individual fund balance will be based on the average daily balance of each fund during the quarter in which the loss occurred.

Any apportioned earnings may not be available for withdrawal until all monies that have been earned (i.e., accrued) have actually been received by the County Treasurer.

4.8.13 Investment Policy Adoption

Pursuant to Government Code Section 27133 the County Treasurer annually prepares an investment policy that is reviewed, monitored and approved by the County Treasury Oversight Committee. Any changes must be approved by the Board of Supervisors. Copies of the approved

investment policy shall be circulated annually to local agencies with funds on deposit in the County pool.

4.8.14 Voluntary Participants

The County provides the opportunity for local agencies to deposit excess funds within the County's Commingled Pool pursuant to Government Code Section 53684. In order to participate, voluntary participants must sign the County's Disclosure and Agreement for Voluntary Deposits which outlines the terms and conditions of participation, including constraints on deposits and withdrawals from the pool. Voluntary participants must also submit a resolution duly adopted by its governing board authorizing the deposit of funds into the Investment Pool.

It is the County's policy to not allow access to the pool unless the voluntary participant agrees to a long-term relationship utilizing the pool and County Treasury for its primary banking needs. The County does not wish to enter into relationships where an entity is placing funds because yields for a time may be higher than what is available at other organizations, because such activity can have an adverse and unfair impact on the other participants. Upon approval of the Treasurer, accommodations may be made to utilize the County resources to make specific investments or manage segregated funds for a voluntary participant at an agreed cost.

4.8.14.1 Temporary Loans to Pool Participants

Various public entities maintain funds on deposit with the County Treasury. From time to time, these public entities experience cash flow problems. Allowing these entities to temporarily borrow from the commingled investment pool is an alternative way to address their short-term cash flow problems. In order to ensure that these temporary loans comply with all legal requirements and investment pool objectives, no such transfers shall be made unless all of the following requirements are met:

- Because the commingled investment pool consists of deposits from both restricted and unrestricted sources, all transfers shall comply with all requirements of Government Code Sections 53601, 53840, 53841 and 53842, including the requirements that they be legally characterized as loans and formalized with "evidences of indebtedness," and meet maturity and security criteria.
- All transfers shall comply with Article XVI, Section 6 of the California Constitution, including the limitations on borrowing amounts and loan periods.
- No transfers shall be made during any fiscal year unless the Board of Supervisors has adopted a resolution authorizing transfers for that fiscal year. (Cal. Constitution Article XVI, Section 6; Government Code Section 25252.)
- Any inter-fund transfers between school district and community college accounts shall be formally approved by the district's governing board and shall comply with all other requirements of Education Code Sections 42603, 42620 and 85220, including requirements regarding repayment, sufficient income, and maximum transfer amounts.

- No transfer may occur until the fund needing the transfer meets the revenue sufficiency test, consistent with state law and County investment pool investment-risk constraints, established by the Director of Finance to ensure repayment.
- Direct borrowing from the pool should be a last resort funding alternative. Pool participants will be encouraged to use all available internal sources for cash flow needs through inter-fund borrowing between the participant's various funds.

The Director of Finance shall do all of the following:

- Proactively monitor fund balances.
- Establish early warning triggers to identify those funds most likely to incur an overdraft and require a transfer.
- Establish a revenue sufficiency test for the purpose of assessing repayment ability.
- Place tax apportionments assigned to an overdrawn fund in a lock box sequestered for credit to the investment pool.
- Establish and monitor investment pool exposure limits.
- Monitor funds to ensure that loans meet dry period (last Monday in April through June 30 of the fiscal year) financing restrictions.
- Restrict certain individual funds (e.g., bond reserve funds) from use as a borrowing source in inter-fund borrowing across funds held by pool participant.
- Establish a hierarchy of associated funds owned by each pool participant to be used as alternative funding sources in the event any of the participant's funds needs a loan.
- Implement accounting procedures that either manually or automatically transfer funds from one fund to another based on preset rules.
- Report within the Quarterly Investment listing all loans extended by the investment pool to participants.

The County's external financial auditor shall regularly review all of the practices and procedures in this Section to ensure compliance with all legal requirements.

4.8.15 Withdrawal of Funds by Voluntary Participants

Public entities that are voluntary participants in the County pool who wish to make withdrawals for the purpose of investing outside of the County pool may request such withdrawals in accordance with the County Investment Management Agreement.

The County Treasurer will assess the proposed withdrawal on the stability and predictability of the investments in the County pool. Prior to approving or disapproving a withdrawal request, the County Treasurer shall determine that the proposed withdrawal will not adversely affect the interests of the other depositors in the County pool. Funds are withdrawn based on the market value.

4.8.16 Warranties

All depositors acknowledge that funds deposited in the Investment Pool are subject to market/investment risk, and that the County Treasurer makes no warranties regarding Investment Pool performance, including but not limited to preservation of capital or rate of return earned on funds deposited in the Investment Pool. Depositors knowingly accept these risks and waive any claims or causes of action against the County Treasurer, the County, and any employee, official or agent of the County for loss, damage or any other injury related to the Depositors' funds in the Investment Pool, with the exception of loss, damage or injury caused solely by the County Treasurer's material failure to comply with the County Investment Policy and all applicable laws and regulations.

APPENDIX E

DTC BOOK-ENTRY ONLY SYSTEM

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The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal of and interest on the Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below), confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners is based solely on information furnished by DTC.

Procedures and Record-Keeping

The Depository Trust Company, New York, New York ("DTC") 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, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 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 Paying Agent and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor 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 the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

Discontinuance of DTC Services

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds, or (ii) DTC shall no longer so act and gives notice to the District of such determination, then the District will discontinue the book-entry system with DTC for the Bonds. If the District determines to replace DTC with another qualified securities depository, the District will prepare or direct the preparation of a new single separate, fully registered Bond, per maturity, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names owners of the Bonds transferring or exchanging Bonds shall designate, and the District will prepare and deliver Bonds to the owners thereof for such purpose.

In the event that the book-entry system is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) payment of principal of and interest on the Bonds will be payable upon surrender thereof at the office of the Paying Agent identified in the Resolutions, and (iii) the Bonds will be transferable and exchangeable as provided in the Resolutions.

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of and interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Resolutions; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Resolutions. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or

others will distribute payments of principal of and interest on the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.