



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item# 9.1

Meeting Date: March 1, 2012

Subject: Resolution No. 2687: Authorizing the Issuance and Sale of the 2011-12 Tax and Revenue Anticipation Notes (TRAN)

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: _____)
- Conference/Action
- Action
- Public Hearing

Division: Administrative Services

Recommendation: Approve Resolution No. 2687, Authorizing the Issuance and Sale of the 2011-12 Tax and Revenue Anticipation Notes (TRAN).

Background/Rationale: Tax and Revenue Anticipation Notes (TRAN) are authorized by law for use by school districts. TRANs are short-term borrowing instruments used by school districts to meet cash flow short falls of the General Fund caused by the uneven distribution of revenues, primarily state aid and property taxes. The TRANs are commonly issued by school districts. Our district has issued TRANs in previous years.

During periods when the TRAN proceeds are not required to meet current operating expenses, the proceeds may be invested in a higher-yield, interest-bearing account. The additional interest earnings help to offset the costs of the TRAN issuance. Due to the state of the current financial market, the interest earned will not offset the issuance costs. The worst case estimated cost to the district is \$708,900.

District staff is working with a TRAN financing team to assist with the issuance. The financing team includes financial advisory services provided by KNN and bond counsel services provided by Orrick, Herrington and Sutcliffe. The 2011-12 Tax and Revenue Anticipation Notes, not to exceed \$80 million, will be sold by a negotiated sale on or about April 11, 2012.

Financial Considerations: The potential net cost of approximately \$700,000 to \$780,000 is an estimate depending on final interest rates and terms.

Documents Attached:

1. Executive Summary
2. Draft Resolution No. 2687
3. Draft Preliminary Official Statement
4. Note Purchase Contract
5. Paying Agent Agreement
6. Continuing Disclosure Agreement

Estimated Time: 5 minutes

Submitted by: Patricia A. Hagemeyer, Chief Business Officer

Approved by: Jonathan P. Raymond, Superintendent

Board of Education Executive Summary

Administrative Services

Approve Resolution No. 2687: Authorizing the Issuance and Sale of the 2011-12 Tax and Revenue Anticipation Notes (TRAN)

March 1, 2012



I. Overview/History:

School districts in California have suffered devastating reductions in funding over the past several years. Cash reserves for most districts are low and Sacramento City Unified School District is no exception. The continued deferral of state revenues has impacted the district to the extent that staff project a negative cash flow in the General Fund by June 30, 2012. Throughout the year, there are three options to assist districts with cash flow issues. First, is the option of inter-fund borrowing. If another fund in the district (Child Development, Nutrition Services, etc.) has cash reserves, the district can “borrow” those funds to get through a negative cash flow period. The district has used this option in the past, however, cash reserves in other funds have declined and there may not be enough cash to cover the General Fund by the end of this year. Another option is dry-period financing or borrowing from the County. From July through the last Monday in April, the County Treasurer will cover a district’s negative cash, up to 85% of anticipated tax collections. A district must have a positive cash flow by that last Monday in April, through May and end the fiscal year with a positive cash flow in June. Dry-period financing is automatically activated should the district have a negative cash position prior to the last Monday in April. The third option is to borrow funds from an outside source. A low cost option available to districts is a Tax Revenue Anticipation Note (TRAN).

A TRAN is a short-term, tax-exempt, interest-bearing note issued by a district in anticipation of taxes and other revenues that will be received later. Because of the economic crises of the state and deferrals in revenues to school districts, many districts are experiencing a spring cash flow deficit in addition to the November shortage of cash. An alternative to a district with this problem is a “cross-year” TRAN. This means that the district receives the funds from a TRAN this fiscal year and will pay it back the following fiscal year from deferred revenues that are expected to be received in July and August of 2012.

During prior Board presentations regarding the district budget, it was discussed that the district would most likely need to issue a TRAN in the spring. District staff are working with the financial advisor from KNN. While a TRAN is not free, (there are costs associated with any type of borrowing), this option is the lowest cost option available to districts.

The attached resolution, draft preliminary official statement and related documents provide the background for approving the TRAN. This item was conferenced at the February 16, 2012 Board meeting.

Board of Education Executive Summary

Administrative Services

Approve Resolution No. 2687: Authorizing the Issuance and Sale of the 2011-12 Tax and Revenue Anticipation Notes (TRAN)

March 1, 2012

II. Driving Governance:

- California Government Code Title 5, Division 2, Part 1, Chapter 4, Article 7.6, Sections 53850 to 53858 which indicate a local agency may borrow money with the indebtedness to be represented by a note or notes; proceeds of sales or funds set aside for the repayment of any notes issued pursuant to this article shall not be invested for a term that exceeds the term of the notes; note or notes shall be issued pursuant to a resolution authorizing the issuance adopted by the legislative body of the local agency; identifies the types of funds that may be pledged to the payment of the note or notes; any note issued pursuant to this article shall be a general obligation of the local agency; note or notes shall not exceed 85 percent of the estimated amount of uncollected taxes, income, revenue, cash receipts and other moneys.
- Education Code Section 42133 which states “a school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines pursuant to criteria established by the Superintendent of Public Instruction, that the district’s repayment of that indebtedness is probable.”

III. Budget:

Up to eighty million dollars (\$80 million) in bonds will be sold, maturing November 2012. The cost of issuance, including the underwriter’s discount, is estimated to be \$200,000. The gross interest cost to the district will be \$924,444 assuming a 2.00% coupon rate. Factoring in the costs of issuance and premium received by the district at the time of sale, the net borrowing cost could be up to \$780,444. This is an estimate depending on final interest rates and terms.

Board of Education Executive Summary

Administrative Services

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March 1, 2012

IV. Goals, Objectives and Measures:

Generate cash through a Tax Revenue Anticipation Note in order to maintain a positive cash flow at June 30, 2012. Throughout the discussion of the district's financial plan, staff along with the district's financial advisor from KNN, have closely monitored cash and the potential of issuing a TRAN has been discussed with the Board in previous Board meetings.

V. Major Initiatives:

- Maintain positive cash flow through June 30, 2012.
- Continuous review of financial options available to the district.

VI. Results:

The successful marketing of the TRAN will address the potential impact of a negative cash flow at June 30, 2012. This is a step in addressing the district's short- and long-term financial plan.

VII. Lessons Learned/Next Steps:

- The attached documents are presented to the Board as an action item.
- Continuous review of district's financial plan.

BOARD OF EDUCATION
OF THE
SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

RESOLUTION NO. 2687

RESOLUTION PROVIDING FOR THE BORROWING OF FUNDS FOR FISCAL YEAR 2011-12 AND THE ISSUANCE AND SALE OF THE SACRAMENTO CITY UNIFIED SCHOOL DISTRICT 2011-12 TAX AND REVENUE ANTICIPATION NOTES THEREFOR APPROVING THE FORMS OF A NOTE PURCHASE AGREEMENT AND AN OFFICIAL STATEMENT FOR SAID NOTES; PROVIDING FOR CONTINUING DISCLOSURE WITH RESPECT TO SAID NOTES; REQUESTING THE COUNTY DIRECTOR OF FINANCE TO ACT AS PAYING AGENT FOR THE NOTES AND AUTHORIZING OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, pursuant to Sections 53850 to 53858, both inclusive, of the California Government Code, being Article 7.6, Chapter 4, Part 1, Division 2, Title 5 thereof (the "Law"), the Board of Education (the "Board") of the Sacramento City Unified School District (the "District") has found and determined that the sum of not to exceed \$80,000,000 is needed by the District in Fiscal Year 2011-12 to satisfy obligations of the District payable from the General Fund of the District during Fiscal Year 2011-12 before the receipt of taxes, income, revenue, cash receipts and other moneys of the District to be received for or to accrue to the General Fund of the District in Fiscal Year 2011-12 that will be available for such purpose, and that it is necessary that such sum be borrowed for such purpose by the issuance of temporary notes therefor in anticipation of such receipt; and

WHEREAS, the District intends to borrow such sum for such purpose by the issuance and sale of the Notes (as hereinafter defined); and

WHEREAS, it appears, and the Board hereby finds and determines, that the principal amount of such Notes, when added to the interest payable thereon, does not exceed 85% of the estimated amount of the uncollected taxes, income, revenue, cash receipts and other moneys of the District anticipated to be received for or to accrue to the General Fund of the District in Fiscal Year 2011-12 that will be available for the payment of the interest on and the principal of such Notes; and

WHEREAS, no money has heretofore been borrowed by the District through the issuance of any temporary notes in anticipation of the receipt of, or payable or secured by, any taxes, income, revenue, cash receipts or other moneys of the District to be received for or to accrue to the General Fund of the District in Fiscal Year 2011-12; and

WHEREAS, pursuant to the Law, certain taxes, income, revenue, cash receipts and other moneys of the District which will be received for or accrue to the General Fund of the District in Fiscal Year 2011-12 can be pledged for the payment of the interest on and the principal of such Notes; and

WHEREAS, this Board of Education deems it necessary and desirable and in the best interests of the District to authorize the sale of said notes by a negotiated sale to E.J. De La Rosa & Co., Inc. (the "Underwriter"); and

WHEREAS, there have been submitted to this Board of Education, and are now on file with the Clerk of this Board of Education, forms of a Paying Agent Agreement, a Note Purchase Agreement, a Preliminary Official Statement and a Continuing Disclosure Certificate with respect to and describing said notes; and

WHEREAS, the District has been accorded fiscal accountability status pursuant to Section 42650 of the Education Code of the State of California; and

WHEREAS, the District received a qualified certification on its most recent interim budget report; and

WHEREAS, the District is required to obtain the determination set forth by required by Section 42133 of the Education Code of the State of California;

NOW, THEREFORE, THE BOARD OF EDUCATION OF THE SACRAMENTO CITY UNIFIED SCHOOL DISTRICT HEREBY FINDS, DETERMINES, DECLARES AND RESOLVES AS FOLLOWS:

Section 1. Recitals. All of the recitals hereinabove set forth are true and correct, and the Board so finds and determines.

Section 2. Amount of Borrowing; Terms of Notes; Payment. Solely for the purpose of anticipating taxes, income, revenue, cash receipts and other moneys of the District to be received for or to accrue to the General Fund of the District in Fiscal Year 2011-12, the District hereby determines to and shall borrow an aggregate principal sum not to exceed \$80,000,000 by the issuance and sale of temporary notes under the Law, designated the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes" (the "Notes").

The Superintendent of the District, the Chief Business Officer of the District, or another officer of the District whom either of the named officers shall designate in writing for this purpose (each, an "Authorized District Representative"), is hereby authorized to determine the aggregate principal amount of the Notes, which sum shall be no greater than the amount recited in the preceding paragraph, or such lesser amount as to which Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District with respect to the Notes ("Bond Counsel"), will deliver an approving opinion regarding the exclusion from gross income for federal tax purposes of interest thereon. The aggregate principal amount of the Notes so determined shall be specified in the Note Purchase Agreement described in Section 9 hereof.

The Notes shall be dated the date of their delivery. The Notes shall mature on a date which is no more than 12 months subsequent to their date of delivery, which date shall be determined at the time of sale thereof and set forth in Note Purchase Agreement. The Notes shall bear interest commencing on the date thereof, computed on the basis of a 360-day year consisting

of twelve 30-day months, at the rate determined at the time of sale thereof and set forth in the Note Purchase Agreement. The principal of and interest on the Notes shall be payable in lawful money of the United States of America to the registered owners of the Notes, as shown on the registration books required to be maintained by the Director of Finance of the County, in Sacramento, California (the "Director of Finance"), pursuant to Section 3(f) hereof. The Notes shall be issued in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof.

The Director of Finance is hereby requested and authorized to act as paying agent for the District with respect to the Notes. The form of Paying Agent Agreement, in substantially the form submitted to and on file with the Clerk of the Board, is hereby approved in such form with such additions or changes as the Authorized District Representative shall approve and the Authorized District Representative is hereby authorized to execute and deliver the Paying Agent Agreement on behalf of the District.

The principal amount of the Notes shall be payable only at the maturity thereof, without option of prior redemption. Interest on the Notes shall be payable at the maturity of the Notes.

Section 3. Registration and Transfer of Notes; Depository.

(a) The Notes shall be initially issued and registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York (the "Depository"), and registered ownership of the Notes, or any portion thereof, may not thereafter be transferred except:

(i) to any successor of the Depository, or its nominee, or of any substitute depository designated pursuant to clause (ii) of this subsection (a "Substitute Depository"); provided, that any successor of the Depository or a Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(ii) to any Substitute Depository not objected to by the Director of Finance, upon (1) the resignation of the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Director of Finance to substitute another depository for the Depository (or its successor) because it is no longer able to carry out its functions as depository; provided, that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) to any person as provided below, upon (1) the resignation of the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the Director of Finance to discontinue using a depository for the Notes.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) of this section, upon receipt of all outstanding Notes by the Director of Finance,

new Notes (which the District shall prepare or cause to be prepared) shall be executed and delivered and registered in the name of such successor or such Substitute Depository, or its nominee, as the case may be. In the case of any transfer pursuant to clause (iii) of subsection (a) of this section, upon receipt of all outstanding Notes by the Director of Finance, new Notes (which the District shall prepare or cause to be prepared) shall be executed and delivered in such denominations and registered in the names of such persons as are determined by the Director of Finance.

(c) The District and the Director of Finance shall be entitled to treat the person in whose name any Note is registered as the owner thereof for all purposes of this resolution and for all purposes of payment of the interest on and the principal of such Note, notwithstanding any notice to the contrary received by the District or the Director of Finance; and the District and the Director of Finance shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Notes, and neither the District nor the Director of Finance shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners of the Notes or to any other party, except as they may be the registered owner of any Notes as provided in this resolution, and the Director of Finance may rely conclusively on the books maintained pursuant to subsection (f) of this section as to the identity of the registered owners of the Notes.

(d) Notwithstanding any other provisions of this resolution, so long as all outstanding Notes are registered in the name of the Depository or its registered assigns, the District and the Director of Finance shall cooperate with the Depository, as sole registered owner of all outstanding Notes, and its registered assigns in effecting payment of the interest on and the principal of the Notes at the times provided herein, by arranging for payment in such manner that funds for such payment are properly identified and are made available on the date such payments are due; all in accordance with the letter of representations from the District to the Depository, and the Director of Finance may rely on the provisions of such letter of representations to implement the foregoing procedures notwithstanding any inconsistent provisions contained herein.

(e) In the case of any transfer pursuant to clause (iii) of subsection (a) of this section, any Note may, in accordance with its terms, be transferred or exchanged for a like aggregate principal amount of Notes in authorized denominations, upon the books maintained by the Director of Finance pursuant to subsection (f) of this section, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Note for cancellation, and, in the case of a transfer, accompanied by delivery of a written instrument of transfer, duly executed in form approved by the Director of Finance.

Whenever any Note shall be surrendered for transfer or exchange, the District shall execute and the Director of Finance shall authenticate and deliver a new Note or Notes of authorized denominations for a like aggregate principal amount; provided, that the Director of Finance shall require the registered owner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange.

(f) The Director of Finance will maintain or cause to be maintained, at his office in Sacramento, California, sufficient books for the registration and transfer of the Notes, which shall at all times be open to inspection by the District. Upon presentation for such purpose, the Director of Finance shall, under such reasonable regulations as he may prescribe, register or transfer the Notes on such books as hereinabove provided.

(g) If any Note shall become mutilated, the District shall execute, and the Director of Finance shall thereupon authenticate and deliver, a new Note of like tenor bearing a different number in exchange and substitution for the Note so mutilated, but only upon surrender to the Director of Finance of the Note so mutilated, and if any Note shall be lost, destroyed or stolen, evidence of the ownership thereof, and of such loss, destruction or theft, may be submitted to the District and the Director of Finance, and if such evidence is satisfactory to such officer and indemnity satisfactory to such officer shall be given, the District shall execute, and the Director of Finance shall thereupon authenticate and deliver, a new Note of like tenor and bearing a different number in lieu of and in substitution for the Note so lost, destroyed or stolen (or if any such Note shall have matured or shall be about to mature, instead of issuing a substitute Note, the Director of Finance may pay the same without surrender thereof); provided, that the Director of Finance may require payment by the registered owner of a Note of a sum not exceeding the actual cost of preparing each new Note issued pursuant to this subsection and of the expenses which may be incurred by the District and the Director of Finance hereunder. Any Note issued under these provisions in lieu of any Note alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District, whether or not the Note so alleged to be lost, destroyed or stolen shall be at any time enforceable by anyone, and shall be entitled to the benefits of this resolution with all other Notes secured by this resolution.

(h) All Notes surrendered for payment or registration of transfer, if surrendered to any person other than the Director of Finance shall be delivered to the Director of Finance and shall be promptly cancelled. The District may at any time deliver to the Director of Finance for cancellation any Notes previously authenticated and delivered hereunder which the District may have acquired in any manner whatsoever, and all Notes so delivered shall promptly be cancelled by the Director of Finance. No Note shall be authenticated in lieu of or in exchange for any Notes cancelled as provided herein, except as expressly permitted hereunder. All cancelled Notes held by the Director of Finance shall be disposed of as directed by the District.

Section 4. Form of Notes. The Notes shall be issued without coupons and shall be substantially in the form and substance set forth in Exhibit A attached hereto and by reference incorporated herein, the blanks in said form to be filled in with appropriate words and figures after the sale of the Notes and before the execution, authentication and delivery of the Notes.

Section 5. Note Proceeds Fund. The Director of Finance is hereby requested to establish a separate account in the General Fund of the District for the purpose of ensuring the application of the proceeds received from the sale of the Notes for the purpose specified in Section 2 hereof for which the Notes are authorized to be issued, which separate account is hereby designated the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes Proceeds Fund" (the "Note Proceeds Fund"). The Director of Finance shall, immediately upon receiving the proceeds of the sale of the Notes, deposit in the Note Proceeds

Fund all amounts representing the proceeds of the Notes received from such sale, and all amounts held in the Note Proceeds Fund shall be invested by the Director of Finance in (i) any investments permitted by Sections 53601 and following of the Government Code, notwithstanding any limitations contained therein as to the maximum proportion of such funds which may be invested in any particular investment, (ii) in investment agreements with a provider or provider's guarantor that is rated "Aa" by Moody's Investors Service, or equivalent rating of any rating agency then rating the Notes, or (iii) in the Local Agency Investment Fund within the treasury of the State of California, insofar as such investments are permitted by the investment policy of the Director of Finance of the County; provided that no proceed shall be invested for a term that exceeds the term of the Notes. The proceeds of and earnings on all such investments shall be deposited in the Note Proceeds Fund.

All amounts in the Note Proceeds Fund shall be withdrawn and expended by the District for any purpose for which the District is authorized to expend funds from the General Fund of the District, but only after exhausting funds otherwise available for such purposes (which are not restricted funds) and only to the extent that on any given day such other funds are not then available; provided, that if on the date that is six months from the date of issuance of the Notes all proceeds of the Notes (including investment earnings thereon) shall not have been so withdrawn and spent (treating as unavailable amounts that otherwise would be available amounts but that are held or set aside in a reasonable working capital reserve not exceeding the amount set forth in the Tax Certificate executed by the District in connection with the issuance of the Notes, and in any event not exceeding 5% of the District's total working capital expenditures from its available funds in Fiscal Year 2010-11), the District shall promptly notify Bond Counsel and, to the extent of its power and authority, comply with instructions from Bond Counsel as to the means of satisfying the rebate requirements of Section 148 of the Internal Revenue Code of 1986 (the "Code"); and for purposes of this paragraph, the "proceeds" of the Notes means the initial offering price of the Notes to the public, as certified to the District by the purchaser(s) of the Notes, plus investment earnings thereon.

Section 6. Pledge of Revenues; Repayment Fund: (a) Unrestricted Revenues. The principal of and interest on the Notes shall be payable from taxes, income, revenue, cash receipts and other moneys of the District received or accrued in Fiscal Year 2011-12 for the General Fund of the District and lawfully available for the payment of current expenses and other obligations of the District (the "Unrestricted Revenues"). The Notes shall not constitute a debt of the County or the District and shall be payable only from funds of the District as provided herein.

(b) Covenant to Deposit Unrestricted Revenues; Pledge of Repayment Fund. As security for the payment of the principal of and interest on the Notes, the District hereby pledges and covenants to deposit or caused to be deposited in trust in a special fund designated as the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Note Repayment Fund" (the "Repayment Fund"), such amounts as shall be necessary to provide for payment of all such sums when due, on the dates and in the amounts, or in the proportions of the total amount due, as shall be specified in the Note Purchase Agreement described in Section 9 hereof, from the first Unrestricted Revenues received or accrued during each period specified in the Note Purchase Contract. The Authorized District Representative is hereby authorized to determine that the District shall set aside moneys in the Repayment Fund from the Unrestricted

Revenues for repayment of the Notes in up to five periodic deposits; provided, that the last such deposit of funds received in or accruing to Fiscal Year 2011-12 shall be made no later than the maturity date of the Notes. The Director of Finance is hereby requested to create and hold the Repayment Fund, acting as the responsible agent to maintain such fund until the payment of the principal of the Notes and the interest thereon.

The amounts pledged by the District for deposit into the Repayment Fund from the Unrestricted Revenues received during each indicated period are hereinafter called the "Pledged Revenues", and are hereby pledged to the repayment of the principal of and interest on the Notes, and such principal and interest shall constitute a first lien and charge on the Pledged Revenues, and shall be payable therefrom, and to the extent not so paid shall be paid from any other money of the District lawfully available therefor.

So long as any of the Notes are outstanding, moneys in the Repayment Fund shall be applied only for payment of principal and interest on the Notes when due in accordance therewith. On such date, the Director of Finance shall apply moneys in the Repayment Fund to the payment of principal of and interest on the Notes then due. Any balance in the Repayment Fund after payment in full of the Notes, or provision therefor, shall be deposited in the General Fund of the District.

Amounts held in the Repayment Fund shall be invested in the same investments permitted by Section 5 of this Resolution. The proceeds and earnings on all such investments shall be deposited in the Repayment Fund.

(c) Other Pledged Money. In the event that there have been insufficient Unrestricted Revenues received by the District to make the required deposit by the third business day prior to the end of any period in which a deposit in the Repayment Fund is required to be made, then the amount of any deficiency in the Repayment Fund shall be satisfied and made up from any other money of the District lawfully available for the payment of the principal of the Notes and the interest thereon (all as provided in Sections 53856 and 53857 of the Government Code) (the "Other Pledged Money") on such date or thereafter on a daily basis, when and as such Pledged Revenues and Other Pledged Money are received by the District.

Section 7. Execution of Notes. The President or Vice President of the Board is hereby authorized to execute the Notes by his or her manual or facsimile signature, and the Clerk or Secretary of the Board is hereby authorized to countersign the Notes by his or her manual or facsimile signature. The Notes shall not be valid, however, unless and until the Director of Finance or an authorized deputy thereof shall have manually authenticated such Notes by executing the Certificate of Authentication printed thereon.

Section 8. Tax Covenants; Rebate Fund.

(a) General. The District covenants that, in the event it is subject to rebate as provided in Section 5 of this resolution, it will make all calculations in a reasonable and prudent fashion relating to any rebate of excess investment earnings on the proceeds of the Notes due to the United States Treasury, will segregate and set aside from lawfully available sources the

amount such calculations may indicate may be required to be paid to the United States Treasury, and will otherwise at all times do and perform all acts and things necessary and within its power and authority, including complying with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and complying with the instructions of Bond Counsel referred to in Section 5 of this resolution, to ensure that interest paid on the Notes shall, for the purposes of federal income taxes and State of California personal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation. If such calculation is required, the District will immediately set aside, from revenues received or accrued during Fiscal Year 2011-12 or, to the extent not available from such revenues, from any other money lawfully available, the amount of any such rebate in a separate fund which the District hereby agrees to establish and maintain with the Director of Finance which shall be designated the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes Rebate Fund."

(b) Remedies Limited to Note Owners. Notwithstanding any other provision of this resolution to the contrary, upon the District's failure to observe, or refusal to comply with, the covenants contained in this section, no one other than the registered owners or former registered owners of the Notes shall be entitled to exercise any right or remedy under this resolution on the basis of the District's failure to observe, or refusal to comply with, such covenants.

(c) Survival of Covenants. The covenants contained in this section shall survive the payment of the interest on and the principal of the Notes.

(d) Reliance on Opinion of Bond Counsel. Notwithstanding any provision of this section, if the District shall provide to the Director of Finance an opinion of Bond Counsel that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the Director of Finance and the District may conclusively rely on such opinion in complying with the requirements of this section, and the covenants hereunder shall be deemed to be modified to that extent.

Section 9. Note Purchase Agreement; Sale of Notes: (a) The Note Purchase Agreement for the Notes, in substantially the form submitted to and on file with the Clerk of this Board of Education, is hereby approved, and the Authorized District Representative is hereby authorized and directed on behalf of the District to execute and approve the Note Purchase Agreement providing for the sale of the Notes and the purchase thereof by the Underwriter at a purchase price to be set forth therein; provided, that (i) the true interest cost for the Notes shall not exceed 7%, (ii) the nominal interest rate on the Notes shall not exceed 12% per annum, (iii) the underwriter's discount shall not exceed 1% of the purchase price of the Notes; (iv) the purchase price of the Notes shall not be less than the aggregate principal amount of the Notes, and (v) the Notes shall otherwise conform to the limitations specified herein; and provided further, that such execution and approval shall constitute conclusive evidence of the approval by the District of any changes or revisions therein from the form of Note Purchase Agreement filed herewith. The Authorized District Representatives are hereby directed to cause the Note

Purchase Agreement to be executed and delivered on behalf of the District, with such changes and revisions as the Authorized District Representative may require or approve.

The Note Purchase Agreement shall recite the aggregate principal amount, issuance date, maturity date and interest rate of the Notes and shall set forth the dates of deposit and amounts or proportions of Pledged Revenues to be deposited in the Repayment Fund on each such date, all as shall be agreed between the Authorized District Representative and the Underwriter at the time of sale of the Notes, and the Notes as finally executed and delivered shall conform in all respects with the terms recited in the Note Purchase Agreement.

Section 11. Preliminary Official Statement. The Preliminary Official Statement relating to the Notes, in substantially the form submitted to and on file with the Clerk of this Board of Education, is hereby approved and adopted as the Preliminary Official Statement of the District with respect to the Notes (the “Preliminary Official Statement”), with such additions, changes and corrections as the Authorized District Representative may require or approve, and the Financial Advisor is hereby authorized to distribute copies of such Preliminary Official Statement to persons who may be interested in purchasing the Notes. The Authorized District Representative is hereby authorized to certify, on behalf of the District, that the Preliminary Official Statement was deemed final as of its date, within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (except for the omission of certain final pricing, rating and related information as permitted by said Rule). The Authorized District Representative is hereby authorized and directed for and in the name and on behalf of the District, to prepare and sign an Official Statement in its final form, including the final pricing information, and the purchaser of the Notes is hereby authorized and directed to deliver copies of such Official Statement in final form to all subsequent purchasers of the Notes.

Section 13. Approval of Actions. All actions heretofore taken by the officers and agents of the District with respect to the sale and issuance of the Notes are hereby approved, and the President of this Board of Education, the Clerk of this Board of Education, any Authorized District Representative and any and all other officers of the District are hereby authorized and directed for and in the name of and on behalf of the District, to do any and all things and take any and all actions relating to the execution and delivery of any and all certificates, requisitions, agreements and other documents, including a paying agent agreement with respect to the Notes, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Notes in accordance with this resolution.

Section 14. Continuing Disclosure Certificate. The Continuing Disclosure Certificate, in substantially the form submitted to this Board of Education is hereby approved and the Authorized District Representative is hereby authorized and directed on behalf of the District to execute the Continuing Disclosure Certificate. The District hereby agrees and covenants that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, as originally executed and as it may be amended from time to time in accordance with the terms thereof, and the Authorized District Representative is hereby authorized and directed to undertake and perform all continuing disclosure obligations contained in the Continuing Disclosure Certificate. Notwithstanding any other provision hereof, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an event of default

hereunder; provided, that any registered owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this section.

Section 15. Further Assurances. It is hereby covenanted and warranted by the District that all representations and recitals contained in this resolution are true and correct, and that the District, and its appropriate officials, have duly taken all proceedings necessary to be taken by them, and will take any additional proceedings necessary to be taken by them, for the [levy and] collection and deposit of the Unrestricted Revenues pledged hereunder in accordance with law and with this resolution and for carrying out the provisions of this resolution. It is hereby further covenanted and warranted by the District that the provisions of the Notes and of this resolution shall constitute a contract between the District and the registered owners of the Notes, and such provisions shall be enforceable by mandamus or any other appropriate suit, action or proceeding at law or in equity in any court of competent jurisdiction, and shall be irrevocable; provided, that notwithstanding any other provision hereof to the contrary, upon the District's failure to observe, or refusal to comply with, the covenants contained herein, no one other than the registered owners or former registered owners of the Notes shall be entitled to exercise any right or remedy under this resolution on the basis of the District's failure to observe, or refusal to comply with, such covenants.

Section 16. Filing with the Board of Supervisors. The Clerk of this Board of Education is hereby authorized and directed to file a certified copy of this Resolution with the Clerk of the Board of Supervisors of the County.

adoption. Section 17. Effective Date. This resolution shall take effect from and after its

PASSED AND ADOPTED this day, March 1, 2012, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

APPROVED:

President of the Board of Education
of the Sacramento City Unified School District

ATTEST:

Clerk of the Board of Education of
the Sacramento City Unified School District

EXHIBIT A

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SACRAMENTO**

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
2011-12 TAX AND REVENUE ANTICIPATION NOTE**

Note Date: _____, **2012** **CUSIP:** _____

FOR VALUE RECEIVED, Sacramento City Unified School District (the "District"), located in the County of Sacramento, California (the "County"), hereby promises to pay to

CEDE & CO. (or registered assigns), as the Registered Owner hereof,

at the office of the Director of Finance of the County, in Sacramento, California, the Paying Agent, Registrar and Transfer Agent with respect to the Notes (as defined herein), the principal sum of

_____ **DOLLARS**
(\$ _____)

in lawful money of the United States of America, at its maturity date, on

_____, **2012**

together with interest thereon at the rate of

_____ **PERCENT** (_____ %)

per annum (computed on the basis of a 360-day year of twelve 30-day months) in like lawful money from the Note Date specified above until payment in full of said principal sum. Interest shall be payable at the maturity hereof. This note shall not be subject to redemption prior to the stated maturity date.

Principal and interest due at maturity shall be paid to the registered owner hereof only upon surrender hereof at the office of the Director of Finance of the County. No interest shall be payable for any period after maturity hereof during which the registered owner hereof fails to properly present this note for payment.

It is hereby certified, recited and declared that this note is one of an authorized issue of notes entitled, "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes" (the "Notes"), in the aggregate principal amount of \$ _____, all of like date, tenor and effect, issued under and by authority of Title 5, Division 2, Part 1, Chapter 4, Article 7.6 (commencing with Section 53850) of the California Government Code, and made,

executed and given pursuant to and by authority of a resolution (the “Resolution”) of the Board of Education of the District duly passed and adopted on _____, 2012), and subject to the more particular terms specified in the Note Purchase Contract executed on _____, 2012, by the Authorized District Representative. It is hereby further certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this note have existed, happened and been performed in regular and due time, form and manner as required by law, and that this note, together with all other indebtedness and obligations of the District, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received for or which accrue to the General Fund of the District during Fiscal Year 2011-12 and which are lawfully available for the payment of current expenses and other obligations of the District (the “Unrestricted Revenues”). As security for the payment of the principal of and interest on this note and all Notes of said authorized issue, the District has pledged the Unrestricted Revenues which shall be deposited in the Repayment Fund in the following manner pursuant to the Note Purchase Contract: (i) an amount equal to ____ of the principal amount of the Notes from the first Unrestricted Revenues received by the District during the period ending _____, 2012 and (ii) an amount equal to ____ of the principal amount of the Notes, plus an amount sufficient (when all previous deposits and earnings on the Repayment Fund are taken into account) to pay all principal and interest with respect to the Notes, from the first Unrestricted Revenues received by the District during the period ending _____, 2012 which accrue to the District’s General Fund in Fiscal Year 2011-12. The amounts pledged by the District for deposit into the Repayment Fund from the Unrestricted Revenues received during each indicated period are hereinafter called the “Pledged Revenues”, and the principal of and the interest on this note and all Notes of said authorized issue shall constitute a first lien and charge thereon and shall be payable therefrom, and to the extent not so paid shall be paid from any other money of the District lawfully available therefor.

[This note is not subject to redemption prior to maturity.]

This note is transferable by the registered owner hereof in person or by such owner’s attorney duly authorized in writing at the office of the Director of Finance, but only in the manner, subject to the limitations and upon payment of the charges provided in the Resolution, and upon surrender and cancellation of this note. Upon such transfer a new Note or Notes of authorized denominations and for the same aggregate principal amount and the same nominal rate of interest will be issued to the transferees in exchange herefor. The District and the Director of Finance may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and interest due hereon and for all other purposes, and the District and the Director of Finance shall not be affected by any notice to the contrary.

This note shall not be valid or become obligatory for any purpose until the Certificate of Registration hereon shall have been signed by the Director of Finance.

IN WITNESS WHEREOF, the Sacramento City Unified School District has caused this 2011-12 Tax and Revenue Anticipation Note to be executed by the President of the Board of the District by manual or facsimile signature, and countersigned by its Clerk or Secretary by manual or facsimile signature, all as of the Note Date specified above.

SACRAMENTO CITY UNIFIED SCHOOL
DISTRICT

By _____
President of the Board of Education
of the Sacramento City Unified School District

Countersigned:

Clerk of the Board of Education of
the Sacramento City Unified School District

DTC LEGEND

Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This Note is one of the Notes described in the within-mentioned Resolution, which Note has been registered on _____, 2012.

DIRECTOR OF FINANCE OF THE COUNTY OF
SACRAMENTO, California, as Paying Agent,
Registrar and Transfer Agent

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ the within-mentioned registered note and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Paying Agent/Registrar and Transfer Agent with full power of substitution in the premises.

Taxpayer I.D. Number

NOTE: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Registered Note in every particular, without alteration or enlargement or any change whatsoever.

Dated: _____

Signature Guarantee: _____

Notice: Signature must be guaranteed by an eligible guarantor institution.

CLERK'S CERTIFICATE

The undersigned Secretary of the Board of Education of the Sacramento City Unified School District, County of Sacramento, California, does hereby certify as follows:

The foregoing is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Education of said District duly and regularly held at the regular meeting place thereof on March 1, 2012, of which meeting all of the members of said Board of Education had due notice and at which a quorum thereof was present; and at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

An agenda of said meeting was posted at least 72 hours before said meeting at Serna Center 5735 47th Avenue, Sacramento, California, a location freely accessible to members of the public, and a brief description of said resolution appeared on said agenda. A copy of said agenda is attached hereto.

I further certify that said resolution has not been amended, modified or rescinded since the date of its adoption, and the same is now in full force and effect.

WITNESS my hand this ____ day of _____, 2012.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

By: _____

Clerk of the Board of Education
Sacramento City Unified School District

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY __, 2012

NEW ISSUE – BOOK-ENTRY ONLY

RATING:

Standard & Poor's: “__”

(See “MISCELLANEOUS – Rating” herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Sacramento City Unified School District, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest with respect to the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer's election under Internal Revenue Notice 94-84. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Notes. See “TAX MATTERS” herein.

**\$(PAR AMOUNT)*
SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2011-12 TAX AND REVENUE ANTICIPATION NOTES**

Dated: Date of Delivery

Due: _____, 2012



This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes (the “Notes”), issued by the Sacramento City Unified School District (the “District”), are by statute a general obligation of the District. The principal amount of the Notes, together with interest thereon, are payable from taxes, income, revenues, cash receipts and other moneys which are received by or which accrue to the District during fiscal year 2011-12 and which are lawfully available for the payment of current expenses and other obligations of the District. ***The District cannot be legally obligated to pay the Notes from revenue of a future year, and the District is not authorized to increase tax rates to repay the Notes in the event other available moneys are insufficient.*** As security for the payment of principal of and interest on the Notes, the District has pledged certain Pledged Revenues (as defined herein) to be deposited in a Repayment Fund (as defined herein) at certain times on or before _____, 2012. See “THE NOTES – Security and Sources of Payment” herein.

Principal of and interest on the Notes are payable only at maturity. The Notes are not subject to redemption prior to maturity. See “THE NOTES – General Provisions of the Notes” herein.

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u> †
				785870[___]

The Notes will be offered when, as and if issued by the District and received by De La Rosa & Co. (the “Underwriter”), subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel and Disclosure Counsel to the District. Certain legal matters will be passed upon for the Underwriter by [Underwriter's Counsel]. It is anticipated that the Notes, in book-entry form, will be available for delivery through DTC in New York, New York, on or about _____, 2012.

[De La Rosa & Co. Logo]

Official Statement Dated _____, 2012.

* Preliminary, subject to change.

† Copyright, American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies Inc. CUSIP data is included solely for the convenience of the owners of the Notes. The District and the Underwriter assume no responsibility for the accuracy thereof.

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. 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 the registration or qualification under the securities laws of such jurisdiction.

This Official Statement does not constitute an offering of any security other than the original offering of the Notes by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The issuance and sale of the Notes have not been registered under the Securities Act of 1933 in reliance upon an exemption under Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy securities in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions 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. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expression of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in affairs of the District since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Notes to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering price stated on the cover page hereof and said public offering price may be changed from time to time by the Underwriter.

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COUNTY OF SACRAMENTO, CALIFORNIA**

DISTRICT BOARD OF EDUCATION

Diana Rodriguez
President (Area 5)

Darrel Woo
Vice President (Area 6)

Jeff Cuneo
Second Vice President (Area 2)

Gustavo Arroyo
Member (Area 4)

Ellyne Bell
Member (Area 1)

Patrick Kennedy
Member (Area 7)

Donald Terry
Member (Area 3)

Isaac Gardon
Student Member

DISTRICT ADMINISTRATION

Jonathan P. Raymond
Superintendent and Board Secretary

Patricia A. Hagemeyer
Chief Business Officer

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent

Sacramento County
Director of Finance
Sacramento, California

Financial Advisor

KNN Public Finance, a Division of Zions First National Bank
Oakland, California

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[\$[PAR AMOUNT]*
SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2011-12 TAX AND REVENUE ANTICIPATION NOTES

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto (the “Official Statement”), is provided to furnish information in connection with the sale of the Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes (the “Notes”), as described more fully herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The Sacramento City Unified School District (the “District”) has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See “OTHER LEGAL MATTERS – Continuing Disclosure” herein.

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

Quotations from and summaries and explanations of the Notes, the Resolution (defined below) providing for issuance of the Notes, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof. Copies of documents referred to herein and information concerning the Notes are available from the District through the Office of the Chief Business Officer, 5735 47th Avenue, Sacramento, CA 95824. The District may impose a charge for copying, mailing and handling.

The District

The District, located in Sacramento County, California (the “County”), is the 12th largest school district in the State of California (the “State”) in terms of student enrollment. The District provides educational services to the residents in and around the City of Sacramento (the “City”), the State capital. The District operates under the jurisdiction of the Superintendent of Schools of Sacramento County, although the District has attained “fiscal accountability” status under the State Education Code. See “THE NOTES – Authority for Issuance” herein. The District’s estimated average daily attendance for fiscal year 2011-12 was 41,838 and the District’s 2011-12 budgeted general fund expenditures are approximately \$416 million as of the first interim financial report.

The District currently operates fifty elementary schools (grades K-6), five elementary/middle schools (grades K-8), nine middle schools (grades 7-8), one middle/high school (grades 7-12), seven comprehensive high schools (grades 9-12), one independent study school, four continuation/alternative schools, three adult education centers, four dependent charter schools, two special education centers and 47 children’s centers which includes preschools. Eight independent charter schools also operate in the District for a total of twelve charter schools serving kindergarten through grade 12 (“K-12”) with a total estimated enrollment of 4,447 students. As of June 30, 2011, the District employed approximately 4,678 employees which include 2,504 certificated (credentialed teaching) employees, 1,954 classified (noninstructional) employees and 220 management personnel.

The District is governed by a Board of Education (the “Board”) consisting of seven members and one student member. The regular members are elected to staggered four-year terms every two years. Beginning in 2008, board member elections are no longer held District-wide, but instead are held among voters who reside in each of seven trustee areas.

* Preliminary, subject to change.

The day-to-day operations are managed by a board-appointed Superintendent of Schools. Jonathan Raymond was appointed Superintendent on July 23, 2009 and his term commenced on August 21, 2009. Mr. Raymond previously served as chief accountability officer for Charlotte-Mecklenburg Schools in North Carolina. Patricia Hagemeyer is currently employed by the District as the Chief Business Officer. She has worked for the District for 31 years in a variety of business positions.

For additional information about the District's operations and finances, see "DISTRICT FINANCIAL AND OPERATING INFORMATION" herein.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Notes to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "Rule") notice of the occurrence of certain enumerated events. See "OTHER LEGAL MATTERS – Continuing Disclosure" and APPENDIX C – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" for a description of the specific nature of the notices of events and a summary description of the terms of the Disclosure Certificate pursuant to which such notices are to be made. These covenants have been made in order to assist the Underwriter in complying with the Rule. As of the date hereof, the District has not failed to comply in all material respects with any previous undertakings with regard to the Rule to file annual reports or notices of certain enumerated events.

THE NOTES

Purpose of the Notes

The Notes are issued in anticipation of future receipt of moneys in the general fund of the District. Proceeds of the Notes will be used and expended by the District for any purpose for which the District is authorized to expend funds from the general fund of the District, including, but not limited to, current expenses, capital expenditures, investment and reinvestment, and the discharge of other obligations or indebtedness of the District.

Authority for Issuance

The Notes are issued in conformity with the laws of the State, including Article 7.6 (commencing with Section 53850) of Chapter 4 of Part 1 of Division 2 of Title 5 of the State Government Code, and pursuant to a resolution adopted by the Board on March 1, 2012, authorizing the sale and issuance of the Notes (the "Resolution").

A fiscally accountable district is authorized to issue its own tax and revenue anticipation notes without action by the board of supervisors of the county in which it is located. The District has attained "fiscal accountability status" under Section 42650 of the State Education Code. In addition to the authority to issue notes, this generally means that the District can order payment of its expenses directly from District funds held by the Director of Finance of the County (the "Director of Finance"), instead of obtaining approval for each payment warrant from the Sacramento County Superintendent of Schools.

Pursuant to Education Code Section 42133, the district has obtained a determination from the Sacramento County Office of Education that repayment of the notes is probable.

General Provisions of the Notes

Issuance and Maturity: The Notes will be dated the date of delivery thereof, and, assuming delivery on _____, 2012, will mature on _____, 2012.

Payment: The Notes will bear interest at the rate per annum set forth on the cover page hereof. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will accrue commencing on the date of delivery of the Notes. Principal of and interest on the Notes are payable only at maturity, in lawful

money of the United States of America, to the registered owners of the Notes, only upon surrender of such Notes at the principal trust office of the paying agent for the Notes (the "Paying Agent"), initially the Director of Finance. No interest shall be payable on any Notes for any period after maturity of the Notes during which the registered owner thereof fails to properly present said Notes for payment.

Form and Registration: The Notes will be issued in fully registered book-entry form only, in denominations of \$5,000 principal amount each or any integral multiple thereof. The Notes will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Notes. Purchases of Notes under the DTC system must be made by or through a DTC participant, and ownership interests in Notes and any transfer thereof 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 Notes, beneficial owners will not receive physical certificates representing their ownership interests. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

Redemption: The Notes are not subject to redemption prior to maturity.

Security and Sources of Payment

The Notes are by statute a general obligation of the District. The principal amount of the Notes, together with interest thereon, are payable from the "Unrestricted Revenues" of the District. Unrestricted Revenues consist of taxes, income, revenues, cash receipts and other moneys which are received by or which accrue to the District for the general fund of the District in fiscal year 2011-12 and which are lawfully available for the payment of current expenses and other obligations of the District. The District has pledged to deposit with the Director of Finance in a special Repayment Fund (a) an amount equal to [__]% of the principal amount of the Notes from the first Unrestricted Revenues received by the District during the month ending [____], 2012; and (b) an amount equal to [__]% of the principal amount of the Notes, plus an amount sufficient to pay principal and interest on the Notes from the first Unrestricted Revenues to be received by the District during the month ending [____], 2012. The amounts so pledged are known as the "Pledged Revenues." The principal of the Notes and the interest thereon will be a first lien and charge against the Pledged Revenues.

To the extent not so paid from the Pledged Revenues, the Notes will be paid from any other moneys of the District lawfully available therefor. In the event that there are insufficient Unrestricted Revenues received by the District to make the required deposit by the third business day prior to the end of any period in which a deposit is required to be made in the Repayment Fund, as hereinafter defined, then the amount of any deficiency will be satisfied and made up from any other moneys of the District lawfully available for the repayment of the principal of and interest on the Notes when and as such other moneys are received.

Although the Notes are a general obligation of the District, the statutory pledge only extends to revenues received during or accruing to fiscal year 2011-12, and the District cannot be legally obligated to pay the Notes from revenues of a future year. Other than a statutory entitlement to its share of the county-wide 1% *ad valorem* tax levy, the District has no authority, and cannot be compelled, to levy taxes to pay the principal of or interest on the Notes. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" herein.

The Resolution creates a special fund to be held by the Director of Finance separate and distinct from all other County and District funds and accounts, designated the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). Any moneys placed in the Repayment Fund will be for the benefit of the holders of the Notes and, until the Notes and all interest thereon are paid or until provision has been made for payment of the Notes at maturity, will be applied solely for the purposes for which the Repayment Fund is created.

At maturity, the Director of Finance, acting as the Paying Agent, shall transfer to the registered owner of the Notes the moneys in the Repayment Fund necessary to pay the principal of and interest then due on the Notes.

Bankruptcy Risks

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

Because the Director of Finance is in possession of the taxes and other revenues that the District has agreed to set aside to pay the Notes, and may deposit and invest these funds in the County's pooled investment fund, should the County go into bankruptcy, a court might hold that the owners of the Notes do not have a valid lien on the funds set aside for payment thereof. In that case, unless the owners could trace the funds, the owners may be merely unsecured creditors of the County. There can be no assurances that the owners could successfully so trace the pledged taxes and other revenues.

If the County were to file for bankruptcy, the District may be unable to order payment of the Notes from moneys held by the County in the fund set aside for such payment. If the District were to file for bankruptcy, the Director of Finance may be enjoined from applying set-aside funds to payment of the Notes, or from setting aside any further moneys of the District for such payment. As governmental units, neither the County nor the District may be declared bankrupt involuntarily by their creditors.

Investment of Note Proceeds and Repayment Fund

The Resolution creates a special fund to be held by the Director of Finance separate and distinct from all other County and District funds and accounts, designated the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes Proceeds Fund" (the "Note Proceeds Fund"). Substantially all of the District's operating funds are held by the Director of Finance and invested pursuant to law and the County's investment policy. Proceeds from the sale of the Notes will be deposited in the Treasury of the County in the Note Proceeds Fund within the general fund of the District. Moneys set aside for repayment of the Notes will be deposited in the Repayment Fund of the District held in the County Treasury and invested by the Director of Finance. Moneys in such funds shall, to the greatest extent possible, be invested by the Director of Finance (insofar as any of such investments are permitted by the investment policy of the Director of Finance), (i) in any investments permitted by Sections 53601 and following of the Government Code, (ii) in investment agreements with a provider or provider's guarantor which is rated "Aa" by Moody's Investors Service, or equivalent rating of any rating agency then rating the Notes, or (iii) in the Local Agency Investment Fund within the treasury of the State in so far as such investments are permitted by the investment policy of the Director of Finance. No funds shall be invested for a term exceeding the maturity of the Notes. See APPENDIX D – "COUNTY OF SACRAMENTO INVESTMENT POLICIES AND PRACTICES AND INVESTMENT POOL QUARTERLY REPORT" herein for a description of the County's investment policy, current portfolio holdings and valuation procedures.

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Estimated Sources and Uses of Funds

The proceeds of the Notes are expected to be applied as follows:

**Sacramento City Unified School District
(County of Sacramento, California)
2011-12 Tax and Revenue Anticipation Notes
Sources and Uses of Funds**

Sources of Funds

Principal Amount of Notes
Original Issue Premium
Total Sources

Uses of Funds

Net Deposit to Note Proceeds Fund
Underwriter's Discount
Costs of Issuance⁽¹⁾
Total Uses

⁽¹⁾ Includes bond counsel fees, disclosure counsel fees, financial advisor fees, rating agency fees, printing fees and other miscellaneous expenses.

DISTRICT FINANCIAL AND OPERATING INFORMATION

State Funding of Education; State Budget Process

General. As is true for all school districts in the State, the District's operating income consists primarily of two components: a portion funded from the State's general fund and a locally-generated portion derived from the District's share of the 1% local ad valorem property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. Because the District's legal minimum funding level is not expected to be met from local property taxes alone, the District budgeted receipt of general operating funds from the State in fiscal year 2011-12. The District projects receipt of about \$164 million in revenue limit funding from the State in fiscal year 2011-12. The District also projects receipt of approximately \$103.8 million in State categorical funding in fiscal year 2011-12. Total State funding accounts for about 68.3% of the District's overall revenues. As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations.

State funding is guaranteed to a minimum level for school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. The funding guarantee is known as "Proposition 98," a constitutional and statutory initiative amendment adopted by the State's voters in 1988, and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution).

Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is at the heart of annual budget negotiations and adjustments.

Adoption of Annual State Budget. According to the State Constitution, the Governor of the State (the "Governor") must propose a budget to the State Legislature no later than January 10 of each year. Under an

initiative constitutional amendment approved by the State's voters on November 2, 2010 as "Proposition 25," a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In recent years, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent, and others, sued the State or Governor in 1995, 2005, and 2009, to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next; by permanently deferring the year-end apportionment from June 30 to July 2; by suspending Proposition 98, and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

2011-12 State Budget. The Governor signed the fiscal year 2011-12 State budget (the “2011-12 State Budget”) on June 30, 2011. The 2011-12 State Budget closes a \$26.6 billion budget gap with \$15.0 billion in expenditure reductions, \$0.9 billion in targeted revenue increases, \$8.3 billion in an improvement in the State’s revenue outlook and \$2.9 billion in new loans and transfers.

The 2011-12 State Budget recognizes that school funding has been disproportionately reduced since fiscal year 2007-08 and initially maintained Proposition 98 funding for K-12 programs at similar levels for fiscal year 2011-12 as is in effect for fiscal year 2010-11. However, revenues are projected to fall short by more than \$2 billion of the revenues forecasted in the 2011-12 State Budget, triggering a first round of cuts built in to the state budget should revenue fall below what lawmakers planned. The additional \$1.9 billion in education reductions could result in shortening the school year by seven days, eliminating the home-to-school transportation program and reducing community college apportionments (see, “– *Trigger of Automatic Cuts*” below).

The 2011-12 State Budget, as enacted, slightly lowers Proposition 98 programmatic funding for fiscal year 2011-12 (\$48.7 billion) from fiscal year 2010-11 (\$49.7 billion). Such funding reflects an increase in general fund revenues in fiscal year 2011-12, the expiration of a variety of short-term tax increases and the rebenching of Proposition 98 guarantee for revenue and program shifts (as further described below).

Under Proposition 98, K-14 education is guaranteed the same percentage of State general fund revenue that was provided in fiscal year 1986-87. When a factor in the calculation changes or a new program is added, Proposition 98 is adjusted or “rebenched” to accurately reflect the base year distribution of State revenues to K-14 education. In fiscal year 2011-12, there are four new rebenching impacts:

- An increase of \$578.1 million to ensure that the Proposition 98 guarantee does not decrease with the shift in motor vehicle fuel revenues. Legislation eliminated the sales tax and increased the excise tax on motor vehicle fuel in fiscal year 2010-11, reducing the amount of revenue that is counted as general fund with the State appropriation limit for the purposes of the Proposition 98 calculation.
- An increase of \$221.8 million to reflect the inclusion of mental health and out-of-home care services within the Proposition 98 guarantee. The 2011-12 State Budget shifts responsibility for mental health services, including out-of-home residential services, from local mental health and county welfare departments to school districts.
- A decrease of \$1.134 billion to reflect the exclusion of child care programs, with the exception of part-day preschool programs, from Proposition 98. The 2011-12 State Budget shifts the child care program fund source from Proposition 98 general fund to non-Proposition 98 general fund. The part-day preschool programs are still funded within Proposition 98.
- A decrease of \$1.7 billion to ensure that the total Proposition 98 guarantee is unchanged as a result of new local revenue related to redevelopment agencies. The 2011-12 State Budget requires local agencies to provide remittances totaling \$1.7 billion in fiscal year 2011-12 to K-12 school districts and county offices of education located within the project area of a redevelopment agency.

In addition to the above adjustments, Proposition 98 is decreased \$2.1 billion as a result of the reduction in general fund sales tax revenue related to the realignment of public safety programs to counties.

Certain adjustments to Proposition 98 expenditures adopted as part of the 2011-12 State Budget included (i) the deferral of \$2.1 billion in K-12 education funding, deemed necessary to maintain funding for K-12 education programs at the fiscal year 2010-11 funding level, and (ii) a decrease of \$62.3 million of part-day State preschool expenditures, including a decrease of \$16.1 million to reduce income eligibility to 70% of the State median income, and a decrease of \$46.2 million to reduce provider contracts across-the-board.

The 2011-12 State Budget includes the following significant Proposition 98 general fund policy and workload adjustments:

- Shift in mental health services from counties to school districts. The 2011-12 State Budget rebench the Proposition 98 guarantee and provides an increase of \$221.8 million Proposition 98 general fund to shift the responsibility for providing mental health services, including out-of-home residential services, required under federal law from county mental health departments and county welfare departments to school districts. The 2011-12 State Budget also reflects the repeal of the AB 3632 mandate. Additionally, the 2011-12 State Budget includes \$2.8 million in one-time federal carryover funds for program oversight and technical assistance while transitioning these services from counties to schools, and for Office of Administrative Hearings caseload resulting from increased AB 3632 mental health service related disputes. The 2011-12 State Budget continues to provide \$98.6 million in Proposition 63 funds to county mental health agencies on a one-time basis in 2011-12. School districts can contract with counties to provide services using Proposition 63 funds, but schools would be responsible for any costs exceeding this amount. In total, the 2011-12 State Budget provides \$389.4 million from all fund sources, including \$69 million in federal funds currently budgeted for mental health services.
- Funding for new charter schools. A total of \$11 million to provide charter schools that commenced operations between fiscal year 2008-09 and fiscal year 2011-12 with supplemental categorical funding. This funding ensures new charter schools have access to the same funding as existing charter schools and traditional public schools. New conversion charter schools would be excluded from this funding and would instead receive a pass-through payment from the school district.
- Extension of flexibility for K-12 school districts. The 2011-12 State Budget extends the following flexibility options to school districts for an additional two years: categorical program flexibility, routine and deferred maintenance expenditure requirements, class size requirements, instructional time requirements, sale of surplus property, instructional materials purchase requirements and local budget reserve requirement.

In addition to the above, a decrease of \$180.4 million to child care and development programs was enacted, reflecting the following: (i) a decrease of \$37.4 million to reduce license-exempt provider rates from 80% to 60% of licensed rates for voucher-based programs; (ii) a decrease of \$12.4 million to reduce income eligibility to 70% of the State median income; and (iii) a decrease of \$130.7 million to reflect an across the board reduction in provider contracts.

The 2011-12 State Budget also makes a one-time change to the A.B. 1200 (see, —District Budget Process and County Review) reporting process by requiring K-12 districts to adopt a one-year budget for Fiscal Year 2011-12 and not the standard current budget plus two subsequent years. It further specifies that county superintendents cannot force K-12 districts to adopt a three-year budget or a budget based on the worst-case scenario (that is, assuming the trigger for education cuts gets pulled).

The complete 2011-12 State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Trigger of Automatic Cuts. On December 13, 2011, Governor Brown announced that State revenues had fallen \$2.2 billion below projections made at the adoption of the 2011-12 State Budget, thus triggering certain automatic spending reductions discussed above. Reductions in education spending amounted to approximately \$330 million. The majority of reductions (\$248 million) will affect the State's home-to-school transportation funding. Additional reductions of approximately \$79.6 million will affect Proposition 98 apportionments. Shortly after the reductions to the home-to-school transportation program were announced by Governor Brown, the Los Angeles Unified School District filed a lawsuit against the State to challenge such transportation cuts. The District anticipates approximately \$2.5 million in transportation and A.D.A reductions as a result of these triggers. The District anticipated the possibility of trigger reductions and will use mostly budget reserves to cover the shortfall.

Proposed 2012-13 State Budget. The Governor officially released his proposed fiscal year 2012-13 State budget (the “2012-13 Proposed State Budget”) on January 5, 2012. The 2012-13 Proposed State Budget projects that the State will face a budget gap of \$9.2 billion in fiscal year 2012-13, which is less than the \$26.6 billion budget gap encountered for fiscal year 2011-12 but more than the approximate \$5 billion that was projected when the 2011-12 State Budget was signed. The 2012-13 Proposed State Budget provides that the \$9.2 billion budget gap is the result of a carryover deficit of \$4.1 billion from fiscal year 2011-12 and an operating deficit, absent any solutions, of \$5.1 billion. The carryover deficit of \$4.1 billion from fiscal year 2011-12 is, according to the 2012-13 Proposed State Budget, a result of several developments, including a \$1.9 billion deficit that carried over from the prior fiscal year and court orders and delayed federal approval related to several cuts in the 2011-12 State Budget.

The 2012-13 Proposed State Budget indicates that a total of \$10.3 billion in cuts, taxes and other revenues will be necessary to close the \$9.2 billion budget gap and to build a \$1.1 billion reserve. The 2012-13 Proposed State Budget reduces expenditures by \$4.2 billion, including substantial cuts to major programs, such as a \$946 million cut to CalWORKs, \$447 million cut to subsidized child care, \$842 million cut to Medi-Cal and \$302 million reduction to the Cal Grant program. The 2012-13 Proposed State Budget also plans for a \$544 million savings from the elimination of supplemental funding for schools associated with the elimination of the sales tax on gasoline together with certain other Proposition 98 adjustments. The 2012-13 Proposed State Budget proposes a total of \$6.1 billion in new revenues.

In addition to balancing the budget, the 2012-13 Proposed State Budget aims to set forth a path to meet the State’s long-term fiscal challenges. The 2012-13 Proposed State Budget recognizes that the State’s debt, deferrals and budgetary obligations will total \$33 billion at the end of fiscal year 2011-12. Under the 2012-13 Proposed State Budget, for the first time in the past decade, the budget is projected to be balanced on an ongoing basis and the \$33 billion amount is projected to be paid off by fiscal year 2015-16.

The 2012-13 Proposed State Budget assumes the passage of the Governor’s proposed initiative for increased taxes at the November 2012 election, which initiative increases the income tax on the State’s wealthiest earners and temporarily increases the sales tax by 0.5%. This initiative is projected by the 2012-13 Proposed State Budget to generate an additional \$6.9 billion in revenues in fiscal year 2012-13, which amount results in a net benefit to the State general fund of \$4.4 billion after accounting for the increased Proposition 98 minimum guarantee. If the Governor’s proposed initiative is not approved, the 2012-13 Proposed State Budget specifies a trigger package of cuts to take effect on January 1, 2013, consisting of \$5.4 billion in additional cuts, including a \$4.8 billion cut to schools and community colleges through the reduction in the Proposition 98 guarantee, a \$200 million cut to the State’s public university systems and a \$125 million cut to the State’s court system.

As it relates to K-12 education, the 2012-13 Proposed State Budget recognizes that Proposition 98 funding for K-12 education significantly declined from an all time high of \$56.6 billion in fiscal year 2007-08 to \$47.6 billion in fiscal year 2011-12. The 2012-13 Proposed State Budget, assuming approval of the Governor’s proposed tax initiatives, provides Proposition 98 funding of \$52.5 billion for K-12 education, an increase of \$4.9 billion from the previous fiscal year. When accounting for all state, federal and local property tax resources, total funding for K-12 education is projected to be \$67.1 billion in fiscal year 2012-13. Total per-pupil expenditures from all sources are projected to be \$10,610 in fiscal year 2011-12 and \$11,246 in fiscal year 2012-13, including funds provided for prior year “settle-up” obligations. K-12 Proposition 98 per-pupil expenditures in the 2012-13 Proposed State Budget are \$7,815 in fiscal year 2012-13, up significantly from the \$7,096 per-pupil provided in fiscal year 2011-12. For fiscal year 2011-12, K-12 A.D.A. is estimated to be 5,950,041, an increase of 2,673 from fiscal year 2010-11. The 2012-13 Proposed State Budget estimates that K-12 A.D.A. will increase by an additional 20,734 to 5,970,775 in fiscal year 2012-13.

In addition to the projected, and assumed, new revenues, the 2012-13 Proposed State Budget proposes (i) a series of rebenchings of the Proposition 98 guarantee, which rebenchings are projected to provide for \$373 million of State general fund savings, (ii) a Proposition 98 general fund reduction of \$171 million to special education and community college apportionments in fiscal year 2011-12 to offset the increased property taxes resulting from the elimination of redevelopment agencies, and (iii) an increase of more than \$2.3 billion in Proposition 98 general fund to reduce inter-year budgetary deferrals for school districts and community colleges.

Certain major workload adjustments for K-12 programs included in the 2012-13 Proposed State Budget include the following:

- Cost-of-Living Adjustment Increases. The 2012-13 Proposed State Budget does not provide a cost-of-living-adjustment (“COLA”) for any K-14 program in fiscal year 2012-13. The projected COLA for fiscal year 2012-13 is 3.17%, which would have provided a \$1.8 billion increase to the extent Proposition 98 resources were sufficient to provide that adjustment.
- Local Property Tax Adjustment. An increase of \$196 million for school district and county office of education revenue limits in fiscal year 2011-12 as a result of lower offsetting property tax revenues, and an increase of \$627 million for school district and county office of education revenue limits in fiscal year 2012-13 as a result of reduced offsetting property tax revenues.
- Average Daily Attendance. A decrease of \$694 million in fiscal year 2011-12 for school district and county office of education revenue limits as a result of a decrease in projected A.D.A. from the 2011-12 State Budget, and an increase of \$158 million in fiscal year 2012-13 for school district and county office of education revenue limits as a result of projected growth in A.D.A. for fiscal year 2012-13.
- K-14 Mandates Funding. An increase of \$110.1 million to support a new block grant program for K-14 mandates. The 2012-13 Proposed State Budget provides a total of \$200 million to fund a mandates block grant incentive program for K-14, while eliminating almost half of the current K-14 mandates. Incentives are created for schools to continue to comply with remaining previously mandated activities.
- Redevelopment Agency Elimination. An increase of \$1.1 billion in offsetting local property taxes for fiscal year 2012-13 due to the elimination of redevelopment agencies.
- Unemployment Insurance. An increase of \$21.8 million in fiscal year 2012-13 to fully fund the additional costs of unemployment insurance for local school districts and county offices of education.
- Charter Schools. An increase of \$50.3 million in Proposition 98 general fund for charter school categorical programs due to charter school growth. The 2012-13 Proposed State Budget proposes to improve in general the operational and financial playing field for charter schools through a series of changes.
- Reduce Child Care Costs. A decrease of \$446.9 million in non-Proposition 98 general fund and \$69.9 million in Proposition 98 general fund to State Department of Education child care programs to reflect changes to reimbursement rates, and to reflect the alignment of eligibility for low-income working family child care services with federal welfare-to-work work participation requirements.
- Transitional Kindergarten. A decrease of \$223.7 million Proposition 98 general fund to reflect the elimination of the requirement that schools provide transitional kindergarten instruction beginning in the 2012-13 academic year. These savings will be used to support existing education programs.
- Child Nutrition Program. A decrease of \$10.4 million in non-Proposition 98 general fund in fiscal year 2012-13 to reflect the elimination of supplemental reimbursement for free and reduced-price breakfast and lunch served at private schools and private child care centers. And an increase of \$37.2 million for fiscal year 2012-13 in State Department of Education federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.

In addition, the 2012-13 Proposed State Budget proposes a new weighted pupil funding formula that will provide significant and permanent additional flexibility to school districts by consolidating the vast majority of

categorical programs (excluding federally required programs such as special education) and revenue limit funding into a single source of funding. The formula will distribute these combined resources to school based on weighted factors that account for the variability in costs of educating specific student populations, thereby ensuring that funding will continue to be targeted to schools with large populations of disadvantaged pupils. The formula will be phased in over a period of five years. The programs that will be replaced by the new formula will immediately be made completely flexible for use in supporting any locally determined education purpose. The 2012-13 Proposed State Budget also adds a system of accountability measures that will be the basis for evaluating and rewarding school performance under this new finance model, which includes the current quantitative, test-based accountability measures and locally developed assessments and qualitative measures.

The complete 2012-13 Proposed State Budget is available from the California Department of Finance website at www.dof.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

LAO Overview of 2012-13 Proposed State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2012-13 Proposed State Budget entitled "The 2012-13 Budget: Overview of the Governor's Budget" on January 11, 2012 (the "2012-13 Budget Overview") in which the LAO disagreed with the \$9.2 billion budget gap estimated by the 2012-13 Proposed State Budget and projected a \$12.8 billion budget gap, a \$3.6 billion difference. This difference is mainly due to the different forecasts of personal income tax revenues, particularly for high-income tax filers. If the LAO's estimates are closer to the target than that in the 2012-13 Proposed State Budget, the State Legislature would have to pursue billions of dollars more in budget-balancing solutions. Further, the 2012-13 Budget Overview recognizes that the State's budget is already dependent on volatile income tax payments by the State's wealthiest individuals and raises concern that the 2012-13 Proposed State Budget is centered on the plan to have these wealthiest individuals pay more taxes, making the State more dependent on this uncertain revenue source.

In the 2012-13 Budget Overview, although the LAO disagrees with the projections provided by the 2012-13 Proposed State Budget, the LAO does agree that the 2012-13 Proposed State Budget, whether with the Governor's proposed tax initiatives or with the trigger package of cuts, would move the State's budget closer to balance over the next several years. The 2012-13 Budget Overview recommends the State Legislature adopt the basic restructuring approaches to the K-12 finance system, community college categorical funding model and education mandate system included in the 2012-13 Proposed State Budget regardless of the State's revenue situation, albeit with a few modifications to specific proposals such as the amount of mandates block grant funding provided or the specific mix of mandated programs that are eliminated versus made discretionary. The 2012-13 Budget Overview also recommends that the State Legislature adopt the proposal in the 2012-13 Proposed State Budget to avoid initiating major new programs beginning in fiscal year 2012-13, such as the transitional kindergarten program. While the 2012-13 Budget Overview finds that there are advantages to the proposed changes and reductions for CalWORKs and subsidized child care, it recognizes that there are potential trade-offs such as the negative impact on many of the State's low-income families.

The LAO believes that the Proposition 98 proposal in the 2012-13 Proposed State Budget generates significant uncertainty for schools districts as it is based upon revenues that would not materialize until midyear with a severe trigger package of cuts in case such revenues, dependent on the Governor's proposed tax initiatives, ultimately do not materialize. Such a scenario, according to the 2012-13 Budget Overview, would force school districts to adopt budgets assuming the \$2.4 billion in programmatic cuts and implement adjustments and reductions that the 2012-13 Proposed State Budget sought to avoid. In contrast, school districts that build budgets assuming the tax initiatives would be adopted could face very difficult midyear fiscal situations if the projected revenues do not materialize. The 2012-13 Budget Overview provides that the State Legislature should consider the unintended consequences of the trigger approach in the 2012-13 Proposed State Budget and be very deliberate in structuring a trigger package, as it in essence would determine the size and quality of the State's K-14 education program in fiscal year 2012-13. The LAO recommends that the State Legislature be cautious when considering the size of the trigger reduction, determining the specific K-14 reductions to impose in advance and designing tools to help school districts respond given the constraints they face in making midyear adjustments.

The 2012-13 Budget Overview is available on the LAO website at www.lao.ca.gov. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2012-13 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposals. Accordingly, the District cannot predict the impact that the 2012-13 Proposed State Budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2012-13 State budget will be affected by national and State economic conditions and other factors which the District cannot predict.

State Cash Management Legislation. On March 1, 2010, the Governor signed a bill (and on March 4, 2010, subsequently signed a clean-up bill to clarify certain provisions of such bill) to provide additional cash management flexibility to State fiscal officials (the "Cash Management Bill"). The Cash Management Bill authorized deferral of certain payments during the 2010-11 fiscal year for school districts (not to exceed \$2.5 billion in the aggregate at any one time, and a maximum of three deferrals during the fiscal year). Similar legislation has been enacted for fiscal year 2011-12. The legislation, sets forth a specific deferral plan for K-12 education payments. In the legislation, both the July 2011 and August 2011 K-12 payments of \$1.4 billion are deferred and the October 2011 payment of \$2.4 billion is deferred. In September 2011, \$700 million of the July deferral is to be paid, in January 2012, \$4.5 billion from the remaining July, August and October deferrals are paid, and in March 2012, \$1.4 billion is to be deferred and paid in April 2012. [The District is authorized to temporarily borrow from among its other funds to cover its annual cash flow deficits and, as a result of this legislation, the District expects to increase the size of its cash flow borrowings in fiscal year 2011-12.]

Dissolution of Redevelopment Agencies. The adopted State budget for fiscal 2011-12, as signed by the Governor of the State on June 30, 2011, included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") and Assembly Bill No. 27 (First Extraordinary Session) ("AB1X 27"), which the Governor signed on June 29, 2011. AB1X 26 suspended most redevelopment agency activities and prohibited redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. AB1X 26 dissolves all redevelopment agencies in existence and designates "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. Certain provisions of AB1X 26 are described further below. As signed by the Governor, AB1X 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB1X 26, upon the enactment by the city or county that created the redevelopment agency of an ordinance to comply with AB1X 27's provisions and the satisfaction of certain other conditions.

In July of 2011, various parties filed an action before the Supreme Court of the State of California (the "Court") challenging the validity of AB1X 26 and AB1X 27 on various grounds (California Redevelopment Association v. Matosantos). The Court subsequently stayed the implementation of a portion of AB1X 26 and all of AB1X 27 pending its decision in Matosantos. On December 29, 2011, the Court rendered its decision in Matosantos upholding virtually all of AB1X 26 and invalidating AB1X 27. In its decision, the Court also modified various deadlines for the implementation of AB1X 26. The deadlines for implementation of AB1X 26 below take into account the modifications made by the Court in Matosantos.

After Matosantos, AB1X 26 continues to suspend most redevelopment agency activities and continues to prohibit redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts. On February 1, 2012, when redevelopment agencies are dissolved, AB1X 26 requires redevelopment agencies to continue to make scheduled payments on and perform obligations required under its "enforceable obligations." For this purpose, AB1X 26 defines "enforceable obligations" to include "bonds, including the required debt service, reserve set-asides, and any other payments required under the indenture or similar documents governing the issuance of outstanding bonds of the former redevelopment agency" and "any legally binding and enforceable agreement or contract that is not otherwise void as violating the debt limit or public policy." AB1X 26 specifies that only payments included on an "enforceable obligation payment schedule" adopted by a redevelopment agency shall be made by a redevelopment agency until its dissolution.

On February 1, 2012, and pursuant to Matosantos, AB1X 26 dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the

former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency will be transferred to the control of the successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various taxing agencies pursuant to AB1X 26.

AB1X 26 requires each successor agency to continue to make payments on enforceable obligations of the former redevelopment agencies. However, until a successor agency adopts a “recognized obligation payment schedule” the only payments permitted to be made are payments on enforceable obligations included on an enforceable obligation payment schedule. The initial enforceable obligation payment schedule will be the enforceable obligation payment schedule adopted by the former redevelopment agency. A successor agency may amend the enforceable obligation payment schedule at any public meeting, subject to the approval of its oversight board.

Under AB1X 26, commencing February 1, 2012, property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will instead be deposited in a “redevelopment property tax trust fund” created for each former redevelopment agency by the related county auditor-controller and held and administered by the related county auditor-controller as provided in AB1X 26. AB1X 26 generally requires each county auditor-controller, on May 16, 2012 and June 1, 2012 and each January 16 and June 1 thereafter, to apply amounts in a related redevelopment property tax trust fund, after deduction of the county auditor-controller’s administrative costs, in the following order of priority:

- To pay pass-through payments to affected taxing entities in the amounts that would have been owed had the former redevelopment agency not been dissolved; provided, however, that if a successor agency determines that insufficient funds will be available to make payments on the recognized obligation payment schedule and the county auditor-controller and State Controller verify such determination, pass-through payments that had previously been subordinated to debt service may be reduced;
- To the former redevelopment agency’s successor agency for payments listed on the successor agency’s recognized obligation payment schedule for the ensuing six-month period;
- To the former redevelopment agency’s successor agency for payment of administrative costs; and
- Any remaining balance to school entities and local taxing agencies.

It is likely that there will be additional legislation proposed and/or enacted to “clean up” various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. No assurances can be given as to the effect of any such future proposed and/or enacted legislation on the Notes.

Future Budgets and Budgetary Actions. 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 during fiscal year 2011-12 and in future fiscal years. Continued State budget shortfalls in fiscal year 2011-12 and future fiscal years could have a material adverse financial impact on the District.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State’s voters approved as Proposition 1A at the

November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as “Proposition 22”.

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes. One effect of this amendment will be to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in Fiscal Year 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of \$1.7 billion in local property tax revenues from local redevelopment agencies. The California Redevelopment Association (CRA) and several local redevelopment agencies sued the State over this latter diversion, and the lawsuit was decided against the redevelopment agencies on May 1, 2010.

Passage of Proposition 22 (and of Proposition 1A before it) will generally have the effect of constricting State funding for education by reducing the State’s options for enhancing its revenues.

District Revenues

Under Education Code Section 42238 and following, each school district is determined to have a target funding level: a “base revenue limit” per student multiplied by the district’s student enrollment measured in units of average daily attendance (“A.D.A.”).

The base revenue limit is calculated from the district’s prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district’s base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State “equalization aid.” To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State’s contribution.

The District's undeficit base revenue limit per A.D.A. is projected to be \$6,494 for fiscal year 2011-12, compared to an amount of \$6,351 for 2010-11. The District's recent A.D.A. history for grades K-12, including special education, is set forth in the table below:

**Sacramento City Unified School District
Total Grades K-12 Second Period (P-2)
Average Daily Attendance**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
2005-06	47,452
2006-07	42,431
2007-08	42,220
2008-09	41,997
2009-10	41,864
2010-11	41,610
2011-12	41,838 ⁽¹⁾

⁽¹⁾ Projected from 2011-12 First Interim Report.
Source: District Audited Financial Statements.

The District's adopted budget and projected A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance or the District's actual funding level for fiscal year 2011-12.

The principal component of local revenues is the District's property tax revenues; that is, the District's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the State Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. The more local property taxes a district receives, the less State equalization aid it is entitled to; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts are known as "basic aid districts." Districts that receive some equalization aid are commonly referred to as "revenue limit districts."

The District is a revenue limit district. Local property tax revenues account for approximately 26.4% of the District's aggregate revenue limit income, and are projected to be approximately \$59 million, or 15% of total general fund revenue in fiscal year 2011-12. The County is a "Teeter Plan" county, which means that the District is made whole for any delinquencies in payment of property taxes by local property owners. For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Effect of Changes in Enrollment. Changes in local property tax income and student enrollment (or A.D.A.) affect revenue limit districts and basic aid districts differently. In a revenue limit district, increasing enrollment increases the total revenue limit and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth—and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on revenue limit districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools. 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.

In basic aid districts, the opposite is generally true: increasing enrollment does increase the revenue limit, but since all revenue limit income (and more) is already generated by local property taxes, there is no increase in State income, other than the \$120 per student in basic aid received in the form of categorical aid, as described above.

Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a basic aid district.

For revenue limit districts, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For basic aid districts, the loss of tax revenues is not reimbursed by the State.

For fiscal year 2011-12, the District projects State equalization aid of approximately \$164 million.

State funds for special (categorical) programs in fiscal year 2011-12 are projected at approximately \$104 million, including the State lottery fund portion. Lottery funds may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District’s total State lottery revenue is projected at \$6.2 million, or about 1.6% of general fund revenue in fiscal year 2011-12.

The District cannot make any predictions regarding how the current economic environment or changes thereto will affect the State’s ability to meet the revenue and spending assumptions in the State’s adopted budget, and the effect of these changes on school finance. The District’s adopted budget and budgeted A.D.A. are used for planning purposes only, and do not represent a prediction as to the actual financial performance, attendance, or the District’s actual funding level for fiscal year 2011-12 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

District Expenditures

The largest part of each school district’s general fund budget is used to pay salaries and benefits of certificated (credentialed teaching) and classified (non-instructional) employees. 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.

In its fiscal year 2011-12 First Interim Report, the District projects that it will expend approximately \$331 million in salaries and benefits, or approximately 80% of its general fund expenditures. This amount represents an increase of .17% from the \$330 million the District expended in fiscal year 2010-11.

Labor Relations. Approximately 4,550 employees are represented by various labor organizations as shown in the table below. The remainder are not represented by any formal bargaining unit.

**Sacramento City Unified School District
Labor Organizations**

<u>Labor Organization</u>	<u>Employees Represented</u>	<u>Contract Expiration</u>
Sacramento City Teacher’s Association	2,504	June 30, 2014 with reopeners
Service Employees International Union	1,823	June 30, 2013 with reopeners
United Professional Educators	128	open
Teamsters	75	June 30, 2013 with reopeners
Classified Supervisors Association	20	June 30, 2013 with reopeners
Total	4,550	

Source: The District.

Retirement Programs. The District participates in the State Teachers’ Retirement System (“STRS”) for all full-time and some part-time certificated employees. Each school district is required by statute to contribute 8.25% of eligible employees’ salaries to STRS on a monthly basis. Employees are required to contribute 8% of eligible

salary. The State is required to contribute as well. The District's employer contribution to STRS from the general fund was \$15.3 million for fiscal year 2010-11 and is projected at \$13.9 million in fiscal year 2011-12.

The District also participates in the California Public Employees' Retirement System ("CalPERS") for all full-time and some part-time classified employees. The District is required to contribute toward CalPERS, at a State-determined percentage of CalPERS-eligible salaries. For fiscal year 2010-11, the contribution percentage was 10.707%. For fiscal year 2011-12, the contribution percentage is 10.923%. In the current budget year, the total contribution is projected at \$5.1 million, compared to a fiscal year 2010-11 General Fund expense of \$6.4 million.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. STRS and CalPERS liabilities are more fully described in APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011," Note 9.

Post-Employment Benefits. In addition to the pension benefits described above, the District provides post-employment health benefits for eligible employees who retire early and certain of their dependents. The amount and length of these benefits depends on a variety of factors, including age at retirement, length of service, and status as a certificated, classified or management employee.

Beginning in fiscal year 2008-09, the District was required to implement Governmental Accounting Standards Board Statement No. 45 ("GASB 45") which directs certain changes in accounting for post-employment healthcare benefits ("OPEB") in order to quantify a government agency's current liability for future benefit payments. GASB 45 is directed at quantifying and disclosing OPEB obligations, and does not impose any requirement on public agencies to fund such obligations. On October 6, 2011, Bickmore Risk Management Services completed an evaluation of the District's obligations as of December 1, 2010.

The report calculates the value of all future benefits already earned by current retirees and current employees, known as the "actuarial accrued liability" (AAL). As of December 1, 2010, the most recent actuarial valuation date, the District had an actuarial accrued liability of approximately \$566.3 million for 3,206 current retirees and beneficiaries and 4,448 additional future participants. The AAL is an actuarial estimate that depends on a variety of assumptions about future events such as health care costs and beneficiary mortality. Every year, active employees earn additional future benefits, an amount known as the "normal cost", which is added to the AAL. The report estimated the normal cost at \$18.1 million for the year beginning December 1, 2010. To the extent that the District has not set aside moneys in an OPEB trust with which to pay these accrued and accruing future liabilities, there is an *unfunded* actuarial accrued liability (UAAL). This district currently funds the costs of retiree benefits on a pay-as-you-go basis. In addition, SCTA has agreed to contribute to the liability through payroll contributions.

The annual required contribution (ARC) is the amount required if the District were to fund each year's normal cost plus an annual amortization of the unfunded actuarial accrued liability, assuming the UAAL will be fully funded over a 30-year period. If the amount budgeted and funded in any year is less than the ARC, the difference reflects the amount by which the UAAL is growing. In December 2010, the ARC was determined to be approximately \$43.6 million. In 2010-11, the District funded \$19.1 million in pay-as-you-go expenditures. The District's 2011-12 projected pay-as-you-go expenditures for post-retirement benefits is \$19.8 million.

Accrued Vacation. The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2011, was \$7.8 million.

Restricted Maintenance Reserve Account. As a condition to receiving State modernization or construction funds, the District agrees to fund a restricted maintenance reserve account in the general fund each year for 20 years of at least 3% of its general fund budget. As a result of 2008-09 State budget legislation, the District is only required to fund the maintenance reserve to 1% of its total expenditures for the five-year period 2008-09 through 2012-13. In 2011-12, the District has funded a maintenance reserve contribution of approximately \$10.2 million or 2.4% of the general fund expenditures.

Summary of District Revenues and Expenditures

The table on the following page summarizes the District's general fund revenue, expenditures and fund balances from fiscal years 2007-08 through fiscal year 2011-12 (projected). See "SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS – District Budget Process and County Review" herein for a general description of the annual budget process for State school districts. The District's audited financial statements for the year ending June 30, 2011, are reproduced in Appendix B. The final (unaudited) statement of receipts and expenditures for each fiscal year ending June 30 is required by State law to be approved by the District's Board of Trustees by September 15, and the audit report must be filed with the County of Sacramento Superintendent of Schools and State officials by December 15 of each year.

The District is required by State law and regulation to maintain various reserves. The District is generally required to maintain a reserve for economic uncertainties in the amount of 2% of its total general fund expenditures, based on total student attendance. For fiscal year 2011-12, the District projects an unrestricted general fund reserve of 2%, or approximately \$8.6 million. Substantially all funds of the District are required by law to be deposited with and invested by the County Treasurer on behalf of the District, pursuant to law and the investment policy of the County. See APPENDIX D – "COUNTY OF SACRAMENTO INVESTMENT POLICES AND PRACTICES AND INVESTMENT POOL QUARTERLY REPORT."

Sacramento City Unified School District General Fund Revenues, Expenditures and Fund Balances Fiscal Year 2007-08 Through Fiscal Year 2011-12

	2007-08 Actual ⁽¹⁾	2008-09 Actual ⁽¹⁾	2009-10 Actual ⁽¹⁾	2010-11 Actual ⁽¹⁾	2011-12 Budget ⁽²⁾⁽³⁾
Revenue/Receipts					
Revenue Limit Sources:					
State Aid	\$186,266,511	\$176,744,988	\$154,299,252	\$165,947,805	\$164,134,999
Property Taxes	61,870,624	63,408,608	60,544,496	56,618,816	58,997,073
Federal Revenue	47,833,768	61,239,195	57,663,445	72,051,245	54,236,041
Other State Revenue	105,751,979	93,574,884	113,183,976	109,156,582	103,791,408
Other Local Revenue	12,968,783	10,288,472	9,442,044	9,136,901	10,568,517
TOTAL	\$414,691,665	\$405,256,147	\$395,133,213	\$412,911,349	\$391,708,037
Expenditures/Disbursements					
Certificated Salaries	\$187,557,101	\$180,615,397	\$172,906,681	\$175,556,153	\$169,971,033
Classified Salaries	58,972,049	57,306,438	54,043,150	52,390,166	50,770,924
Employee Benefits	91,952,532	95,823,370	95,971,539	102,090,242	109,858,001
Books and Supplies	17,437,487	13,957,476	12,699,281	16,484,359	30,424,468
Services/Other Operating Expenditures	56,116,472	58,232,043	58,552,553	56,372,037	52,068,362
Capital Outlay	2,275,060	1,508,402	645,994	2,358,049	2,280,662
Other Outgo	42,935	27,720	18,318	27,684	-
Transfers of Indirect/Direct Support Costs	-	-	-	-	(1,806,552)
Debt Service	1,819,229	3,079,680	2,328,317	576,329	2,164,021
TOTAL	\$416,172,865	\$410,550,526	\$397,165,833	\$405,855,019	\$415,730,919
Excess (Deficiency) of Revenue Over (Under) Expenditures	(1,481,200)	(5,294,379)	(2,032,620)	7,056,330	(24,022,881)
Other Financing Sources/ (Uses)					
Transfers In/ Other Sources	\$4,017,169	\$7,340,438	\$4,848,912	\$12,364,418	\$2,930,254
Transfers Out/ Other Uses	(1,700,000)	-	(16,191,057)	(9,397,892)	-

Proceeds from capitalized lease obligations	-	-	47,411	15,977	-
TOTAL	<u>\$2,317,169</u>	<u>\$7,340,438</u>	<u>\$(11,294,734)</u>	<u>\$2,982,503</u>	<u>\$2,930,254</u>
Excess of Revenue/Other Sources Over (Under) Expenditures/Other Uses	835,969	2,046,059	(13,327,354)	10,038,833	(21,092,627)
FUND BALANCE, BEGINNING OF YEAR	<u>34,805,917</u>	<u>35,641,886</u>	<u>37,687,945</u>	<u>24,360,591</u>	<u>34,399,424</u>
FUND BALANCE, END OF YEAR	\$35,641,886	\$37,687,945	\$24,360,591	\$34,399,424	\$13,306,797

(1) Audited financial statements.

(2) 2011-12 First Interim Financial Report.

(3) Amounts may not add up due to rounding.

Source: The District.

District Cash Flows

The District's general fund expenditures tend to be heaviest in the middle and end of the school year and lightest during the summer months. Receipts follow an uneven pattern, primarily because secured tax installment payment dates are in December and April. The District exercises virtually no control over the amount or timing of its own revenues. The level of receipts depends on assessed value of taxable property and State income. See "– State Funding of Education; State Budget Process" above. The timing of receipt of State funds is dictated by statute. The timing of receipt of local property tax revenues depends on County policy. The timing and level of expenditures are largely predictable, depending primarily on scheduled employee payrolls and benefits payments as negotiated with employee labor organizations for the current year.

Exhibits I and II below, show actual/projected General Fund cash receipts and disbursements for fiscal year 2011-12 and projected cash receipts and disbursements for fiscal year 2012-13. The fiscal year 2011-12 monthly receipts and disbursements take the receipt of Note proceeds and repayment of the Notes into consideration.

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Exhibit I

**Sacramento City Unified School District
2011-12 Cash Flow
General Fund**

[To Come]

Exhibit II

**Sacramento City Unified School District
Projected 2012-13 Cash Flow
General Fund
(Including TRAN Proceeds)**

[To Come]

District Debt Structure

Tax and Revenue Anticipation Notes. To address predictable annual cash flow deficits resulting from the different timing of revenues and expenditures, the District has issued tax and revenue anticipation notes in each recent year as shown in the table below. The District's notes are a general obligation of the District, payable from the District's general fund and any other lawfully available moneys.

<u>Issuance Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Due Date</u>
12/01/05	\$25,000,000	4.50%	3.15%	12/01/06
12/14/06	24,475,000	4.00	3.30	12/14/07
11/28/07	30,000,000	3.75	3.27	11/28/08
05/11/11	50,000,000	2.25	1.875	11/02/11

General Obligation Bonds. On October 19, 1999, voters in the Sacramento City Unified School District approved a bond measure authorizing the district to issue \$195,000,000 in general obligation bonds, colloquially known as "Measure E" bonds. The District sold \$50,000,000 of the Measure E bonds on February 10, 2000, \$45,000,000 of the Measure E bonds on March 27, 2001, \$45,000,000 of the Measure E bonds on May 7, 2002, and \$55,000,000 of the Measure E bonds on August 1, 2004.

On November 2, 2002, voters in the Sacramento City Unified School District approved a bond measure authorizing the district to issue \$225,000,000 in general obligation bonds, colloquially known as "Measure I" bonds. The District sold \$80,000,000 of the Measure I bonds on March 1, 2003, \$80,000,000 of the Measure I bonds on July 1, 2005, and \$64,997,966 of the Measure I bonds on March 1, 2003.

The District's outstanding general obligation bonds are summarized in the table below.

<u>Issue Name</u>	<u>Issuance Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Due Dates</u>
2001 Refunding Bonds	10/12/2009	\$52,310,000	2.2%-5%	2011-2029
1999 Series B	03/27/2001	45,000,000	4.0-5.0	2011-2031
1999 Series C	05/07/2002	45,000,000	4.0-5.0	2011-2031
1999 Series D	08/01/2004	55,000,000	2.5-5.125	2011-2029
2002 Series A	03/01/2003	80,000,000	4.0-5.0	2011-2027
2002 Series 2005	07/01/2005	80,000,000	4.0-5.0	2011-2030
2002 Series 2007	11/14/2007	64,997,996	3.5-5.0	2011-2033
2011 Refunding Bonds	06/09/2011	79,585,000	3.0-5.5	2012-2030

Approximately \$320,987,966 of the District's general obligation bonds remain outstanding.

Certificates of Participation. On April 18, 2001, Certificates of Participation ("COPs") of \$43,580,000 were issued with variable interest rates ranging from 4.1% to 5.0% maturing on March 1, 2031, for the advance refunding of Series 1999C COPs (with remaining obligation of \$29,590,000) and to provide additional capital for construction projects. With the payment of \$30,000,000 to the Escrow Agent to advance refund and defease the District's 1999C COPs, the 1999C COPs are considered to be defeased, and the obligations have been removed from the District's financial statements.

On July 11, 2002, the District issued \$58,000,000 of Variable Rate Certificates of Participation for the advance refunding of 1998 Series A COPs (with remaining obligation of \$13,750,000) and 1999 Series D COPs (with remaining obligation of \$15,480,000) and to provide additional capital for construction projects. With the payment of \$29,230,000 to the Escrow Agent to advance refund and defease the District's 1998 Series A COPs and the 1999 Series D COPs, the District's 1998 Series A COPs and the 1999 Series D COPs are considered to be defeased. The 2002 Variable Rate COPs were remarketed on March 14, 2011 in the aggregate principal amount of \$48,020,000. Interest on these Variable Rate COPs is based on the SIFMA Term Floater Rate, determined by the Remarketing Agent.

On March 14, 2011, the District remarketed the 2002 Variable Rate Demand Certificates in the aggregate principal amount of \$48,020,000, maturing on March 1, 2040. The District caused the mandatory tender of the 2002 COPs to convert the interest rate from a weekly rate to a SIFMA Term Floater Rate.

Scheduled payments for the COPs are as follows:

Year Ending June 30,	COPs Payments
2012	\$3,036,795
2013	3,055,895
2014	3,071,175
2015	3,083,075
2016	3,101,495
2017-2021	15,832,325
2022-2026	17,528,750
2027-2031	22,065,000
Thereafter	<u>33,025,000</u>
Total payments	\$103,799,510
Less: Interest Portion	<u>(20,914,510)</u>
Net Minimum Payments	<u>\$82,885,000</u>

Voter-approved bonds, and bonds issued to refund such bonds are payable from a special *ad valorem* property tax authorized to be levied by the County as necessary to repay the amounts coming due in each year. See the table above for a description of principal and interest owed on all bonds outstanding.

Capital Financing Plan

The District has completed a Facilities Master Plan to determine district-wide facilities needs and identify funding sources. In 2008, the District issued the last series of bonds from the 2002 authorization to finance rehabilitation of facilities and new construction necessitated by the District’s growth in the high school student population. In addition to funds obtained under the 2002 authorization, facilities expenditures are expected to be funded through a combination of State construction programs, local sources and the District’s general fund.

Insurance, Risk Pooling and Joint Powers Arrangement

The District is a member of the Schools Insurance Authority (the “SIA”), a Joint Powers Authority (a “JPA”) which operates as a common risk management and insurance program for property and liability coverage. In June 2004, the Board of Trustees of the District terminated its relationship with the California Administrative Services Authority (“CASA”), also a JPA. CASA was intended to offer an alternative retirement system for certain District personnel. As a result of its participation in CASA, the district may owe up to \$2.5 million to the State Department of Education to refund unearned “PERS Reduction” income received, and up to \$3.2 million to the Social Security Administration in unpaid employer and employee contributions. Litigation resulting from the District’s participation of CASA is ongoing, and the full extent of its liability is not yet known. For more information, see APPENDIX B – “FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2011,” Notes 11 and 12.

Charter Schools

Charter schools operate as autonomous public schools, under charter from a school district, county office of education, or the State Board of Education, with minimal supervision by the local school district. Charter schools receive revenues from the State and from the District for each student enrolled, and thus effectively reduce revenues available for students enrolled in District schools. The District is also required to accommodate charter school

students originating in the District in facilities comparable to those provided to regular District students. Twelve charter schools currently operate in the District’s boundaries, four of which are dependent and eight of which are directly funded. As to the directly-funded schools, the District pays revenue in lieu of property taxes up to the revenue limit for charter students originating within the District. For fiscal year 2011-12, the District expects to make in-lieu payments in an amount equal to approximately \$5.2 million.

Total charter school attendance is projected to be approximately 4,447 for fiscal year 2011-12.

Capital Lease

The District leases office equipment, computers and buses under long-term lease purchase agreements, payable from the general fund of the District. In accordance with generally accepted accounting principles, the District capitalizes these lease purchase agreements within the General Long-Term Debt Account Group. As of June 30, 2011, the schedule of lease payments was as follows:

<u>Year Ending June 30</u>	<u>Capital Lease Payments</u>
2012	\$16,696
2013	16,696
2014	16,696
2015	<u>2,553</u>
Total Payments	\$52,641
Less: Interest Portion	<u>(3,206)</u>
Net Minimum Lease Payments	<u>\$49,435</u>

CASA Pension Program and Pension Program Revenue Bonds

Formation of CASA and the Pension System: In June 2000, the District entered into a joint exercise of powers agreement with the Yolo County Office of Education to form the California Administrative Services Authority (CASA), a State “joint powers authority,” in order to provide administrative services to its members and to offer an alternative retirement system to replace CalPERS and Social Security for certain electing District classified personnel. See “District Expenditures – Retirement Programs” above. In order to participate in the CASA retirement system, District employees took a leave of absence from the District to become employed by CASA, and were contracted back to the District to work in their old positions and functions. Under applicable laws, so long as a public employer offers an acceptable alternative to, and does not participate in, CalPERS and Social Security, neither the employer nor its employees are required to contribute to those systems. By recapturing the Social Security contributions, CASA expected to be able to afford enhanced retirement benefits compared to CalPERS, and thus to attract and retain highly qualified staff for the District.

On April 1, 2004, the Board notified CASA that it intended to terminate the District’s Operating Agreement under which CASA provided staff services to the District, effectively returning those employees to District employment as of July 1, 2004. The District no longer has any employees working for or through CASA.

Investigation of CASA and Potential District Liability: On December 16, 2003, MGT issued its report regarding the District’s potential exposure as a result of its participation in CASA. In addition to the amount requested by CalPERS, MGT identified that the District could owe up to \$2.5 million to the State Department of Education to refund unearned “PERS Reduction” income received on account of District employees transferred to CASA employment, and \$3.2 million to the Social Security Administration in unpaid employer and employee contributions.

Since July 1, 2004, the District has resumed making ordinary contributions to CalPERS and Social Security for its former CASA employees. In a settlement agreement with CalPERS reached in January 2007, the District has also agreed to retroactively enroll former CASA employees into CalPERS for the time they were employed by

CASA. The retroactive adjustments have been completed and payment to CALPERS for the additional service credit has been made.

SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS

District Budget Process and County Review

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

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

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

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

A State law adopted in 1991 ("A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the County Superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The County Superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the County Superintendent. The District has self certified a qualified certification since 2008.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with the definitions, instructions and procedures of the California School Accounting Manual, as required by the State Education Code. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

Crowe Horwath LLP, Sacramento, California, served as independent auditor to the District for fiscal year ended June 30, 2011, and their report is attached hereto as Appendix B. The District considers its audited financial statements to be public information, and accordingly no consent has been sought or obtained from the auditor in connection with the inclusion of such statements in this Official Statement. The auditor has made no representation in connection with inclusion of the audit herein that there has been no material change in the financial condition of the District since the audit was concluded. The District is required by law to adopt its audited financial statements following a public meeting to be conducted no later than January 31 following the close of each fiscal year.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIII A of the California Constitution. Article XIII A of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIII A limits the maximum *ad valorem* tax on real property to 1% of “full cash value,” and provides that such tax will be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition.

Section 2 of Article XIII A defines “full cash value” to mean the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. The State Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently “recapture” such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor’s measure of the restored value of the damaged property. State courts have upheld the constitutionality of this procedure. Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except the 1% base tax levied by each County and taxes to pay debt service on indebtedness approved by the voters as described above.

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

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

Article XIII C and Article XIII D of the California Constitution. On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the State Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIII C also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer and tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the Bonds or to otherwise interfere with performance of the duty of the District and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIII C will 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 which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D will 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 therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. Developer fees imposed by the District are restricted as to use and are neither pledged nor available to pay the Bonds.

The interpretation and application of Proposition 218 continues to be considered and determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

On November 2, 2010, State voters approved Proposition 26 which amended certain sections of Article XIII C of the Constitution. The proposition defines “tax” as used within Article XIII C as “any levy, charge, or exaction of any kind imposed by a local government, *except* the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.” The local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. As a result of the broadened definition of “tax” under Proposition 26, it is likely that a greater percentage of state and local revenue proposals will be subject to the higher two-thirds voter approval requirement. State laws that conflict with Proposition 26, unless they are approved again by two-thirds of each house of the Legislature, are repealed effective November 2011.

Expenditures and Appropriations

Article XIII B of the California Constitution. In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIII B of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990, levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity, each has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services. Each school district is required to establish an appropriations limit each year. In the event that a school district’s revenues exceed its spending limit, the district may increase its appropriations limit to equal its spending by taking appropriations limit from the State.

Proposition 111 requires that each agency’s actual appropriations be tested against its limit every two years. If the aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency’s taxpayers through tax rate or fee reductions over the following two years. If the State’s aggregate “proceeds of taxes” for the preceding two-year period exceeds the aggregate limit, 50% of the excess is transferred to fund the State’s contribution to school and college districts.

In fiscal year 2010-11, the District had an appropriations limit of \$237,389,496 and appropriations subject to the limit of \$233,222,740. For fiscal year 2011-12, the District’s appropriations limit is budgeted at 244,224,025.

Future Initiatives. Articles XIII A, XIII B, XIII C, and XIII D, and Propositions 26, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process.

LOCAL PROPERTY TAXATION

Assessed Valuation of Property Within the District

Taxable property located in the District has a 2011-12 assessed value of approximately \$25.7 billion. All property (real, personal and intangible) is taxable unless an exemption is granted 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 State Legislature may create additional exemptions for personal property, but not for real property. Although most taxable property is assessed by the assessor of the county in which the property is located, some special classes of property are assessed by the State Board of Equalization, as described below under the heading, “State-Assessed Property.”

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed.

Locally taxed property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property. Shown in the following table is the assessed valuation of the various classes of property in the District in recent years.

Under Proposition 13, an amendment to the State Constitution adopted in 1978, the assessed value of *ad valorem* property was established as the county assessor’s valuation of real property as shown on the fiscal year 1975-76 tax bill, or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred. Assessed value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction, market forces, or other factors. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.” As a result, 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. Similar property that has recently been acquired may have a substantially higher assessed value reflecting the recent acquisition price. Increases in assessed value in a taxing area due to the change in ownership of property may occur even when the rate of inflation or consumer price index would not otherwise permit a full 2% increase in assessed valuation of property that does not change ownership. Proposition 13 has had the effect of stabilizing assessed valuation such that it does not fluctuate as significantly as the market value of property, but instead gradually changes as older residential properties are transferred and reassessed upon such transfer.

Classification of Locally Taxed Property. Locally taxed property is classified either as “secured” or “unsecured,” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as “utility” property.

Under California law, a city or county could, and did, prior to recent California legislation dissolving redevelopment agencies, create a redevelopment agency in territory within one or more school districts. Upon formation of a “project area” of a redevelopment agency, most property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as “tax increment”) belong to the redevelopment agency, causing a loss of general fund tax revenues (relating to the 1% countywide general fund levy) to other local taxing agencies, including school districts, from that time forward. However, special *ad valorem* property taxes (in excess of the 1% general fund levy) collected for payment of debt service on school bonds are based on assessed valuation before reduction for redevelopment increment and such special *ad valorem* property taxes are not affected or diverted by the operation of a redevelopment agency project area. The application of such revenues diverted by redevelopment agencies is now substantially limited to meeting existing debt service of the redevelopment agencies.

As to operating revenues, any loss of local property taxes that contribute to the revenue limit target of a revenue limit district is made up by an increase in State equalization aid, until the base revenue limit is reached. “Pass-through” payments of local tax revenues required by law to be paid to the school district by a local redevelopment agency will count toward the revenue limit, except for any portion dedicated to capital facilities or deferred maintenance.

For basic aid districts, the State will not make the district whole for loss of tax increment to the redevelopment agency unless and only to the extent that such loss reduces the district's local property tax revenues below the district's revenue limit. In addition, the basic aid district may be entitled to a pass-through payment from the redevelopment agency: for any redevelopment project plan adopted or amended after 1993, a basic aid district is entitled to its pre-plan share of taxes collected district-wide, plus the lesser of (i) property tax revenues from the incremental growth in assessed valuation in that part of the district not included in the project area, and (ii) property tax revenues on 80% of the incremental growth in assessed valuation within the project area. For any redevelopment plan adopted before 1994 and not subsequently amended, either a revenue limit district or a basic aid district may continue to receive pass-through payments at the level negotiated with the redevelopment agency instead of the statutory pass-through; such payments do not count against the district's revenue limit for State aid purposes, but must generally be used for capital facilities improvements. Although there are redevelopment agencies within the District's territory, the District does not receive any tax-increment pass-through payments.

The 2011-12 Budget suspends various activities of redevelopment agencies and prohibits the agencies from incurring indebtedness for a specified period. The 2011-12 Budget also dissolves redevelopment agencies and community development agencies, as of February 1, 2012, and designates successor agencies to wind down the affairs of the dissolved redevelopment agencies. At this time the District cannot predict what effect the dissolution of redevelopment agencies will have on the District's property tax receipts. For more information on the dissolution of redevelopment agencies, see "DISTRICT FINANCIAL AND OPERATING INFORMATION – State Funding of Education; State Budget Process—*Dissolution of Redevelopment Agencies*" above.

The greater the assessed value of taxable property in the District, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on the District's outstanding general obligation bonds. State law requires that the assessment roll be finalized by August 20 of each year. The following table shows recent history of taxable assessed valuation.

**Sacramento City Unified School District
Summary of Assessed Valuation
Fiscal Year 2006-07 Through Fiscal Year 2011-12**

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total*</u>	<u>Percent Change</u>
2006-07	\$23,734,542,444	\$49,522,393	\$1,240,099,083	\$25,024,163,920	–
2007-08	25,604,769,732	9,832,961	1,271,566,642	26,886,169,335	7.44%
2008-09	26,664,260,222	6,526,133	1,369,019,604	28,039,805,959	4.29
2009-10	25,300,012,709	6,515,367	1,436,477,398	26,743,005,474	(4.62)
2010-11	24,998,615,578	6,555,142	1,379,440,206	26,384,610,926	(1.34)
2011-12	24,360,833,460	6,602,390	1,381,399,468	25,748,835,318	(2.41)

* Figures do not include redevelopment increment.

Source: California Municipal Statistics, Inc.

State-Assessed Property. Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in the State, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. 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 all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the

County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State’s methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District. So long as the District is a “revenue limit district,” any reduction in the District’s property tax revenues for general operating purposes will be offset by an increase in State funding.

Appeals of Assessed Valuation. State law affords an appeal procedure to taxpayers who disagree with the assessed value of their taxable property. Taxpayers may request a reduction in assessment directly from the County Assessor (the “Assessor”), who may grant or refuse the request, and may appeal an assessment directly to the Sacramento County Board of Equalization, which rules on appealed assessments whether or not settled by the Assessor. The Assessor is also independently authorized to reduce the assessed value of any taxable property upon a determination that the market value has declined below the then-current assessment.

Recently, significant changes in the market value of taxable properties in the State and in the County have resulted in reductions in assessed values and increased assessment appeals activity. As of [____ 1, 20__], the 100 largest pending appeals in the County have a combined assessor’s value of \$[_____], compared to a combined claimed applicant value of \$[_____], which is a difference of \$[_____].

The District can make no predictions as to the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the outstanding general obligation bonds of the District to increase accordingly in future years, so that the fixed debt service on such bonds (and other outstanding bonds) may be paid. In addition, any refund of paid taxes triggered by a successful assessment appeal will be debited by the County Director of Finance against all taxing agencies who received tax revenues, including the District.

Tax Levies, Collections and Delinquencies

A 10% penalty attaches to any delinquent payment for secured roll taxes. In addition, property on the secured roll with respect to which taxes are delinquent becomes tax-defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to auction sale by the Director of Finance.

In the case of unsecured property taxes, a 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1st of the fiscal year, and a lien is recorded against the assessee. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on specific property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder’s office in order to obtain a lien on specified property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The following table shows *ad valorem* property tax rates for the last several years in a typical Tax Rate Area of the District (TRA 3-005). For 2011-12, TRA-3-005 comprises approximately 27.5% of the total assessed value of taxable property in the District.

**Sacramento City Unified School District
Summary of Ad Valorem Tax Rates
\$1 Per \$100 of Assessed Valuation
TRA 3-005**

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12⁽¹⁾</u>
General	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Los Rios Community College District	.0066	.0074	.0124	.0090	.0192

Sacramento Unified School District	<u>.0890</u>	<u>.0938</u>	<u>.0911</u>	<u>.0979</u>	<u>.0982</u>
Total	\$1.0956	\$1.1012	\$1.1035	\$1.1069	\$1.1174

⁽¹⁾ Total 2011-12 Assessed Valuation for TRA 3-005 is \$7,079,363,426.

Source: California Municipal Statistics, Inc.

Teeter Plan: The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Sections 4701 and following of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including the District, levying property taxes in the County receives the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected, with the credit funded from a reserve established and held by the County for this purpose. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency.

The Teeter Plan is to remain in effect unless the County Board of Supervisors orders its discontinuance or unless, prior to the commencement of any subsequent fiscal year, the Board of Supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the County. The Board of Supervisors may discontinue the Teeter Plan with respect to any assessments on the secured roll for any year. The Board of Supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency in the County if the rate of secured tax delinquency therein exceeds 3% in any year.

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

Sacramento City Unified School District Secured Tax Charges and Delinquencies (Debt Service Levies only) Fiscal Year 2006-07 Through Fiscal Year 2010-11			
Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent as of June 30	Percent Delinquent as of June 30
2005-06	\$23,657,125.00	\$495,983.00	2.10%
2006-07	20,063,598.41	712,321.26	3.55
2007-08	22,499,937.00	899,744.00	4.00
2008-09	24,538,884.00	761,754.00	3.10
2009-10	22,583,246.00	572,615.00	2.54
2010-11	24,021,726.00	601,074.00	2.50

⁽¹⁾ Debt service levy only.

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table gives a distribution of taxable property located in the District by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

**Sacramento City Unified School District
2011-12 Taxable Assessed Valuation and Parcels by Land Use**

	2011-12 <u>Assessed Valuation</u> ⁽¹⁾	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
Non-Residential:				
Agricultural	\$ 10,857,199	0.04%	19	0.02%
Commercial	5,516,728,772	22.65	3,562	3.50
Vacant Commercial	141,795,634	0.58	520	0.51
Industrial	1,301,090,685	5.34	1,276	1.25
Vacant Industrial	46,079,685	0.19	290	0.29
Recreational	65,926,980	0.27	75	0.07
Government/Social/Institutional	194,512,028	0.80	322	0.32
Miscellaneous	<u>2,250,485</u>	<u>0.01</u>	<u>176</u>	<u>0.17</u>
Subtotal Non-Residential	\$7,279,241,468	29.88%	6,240	6.14%
Residential:				
Single Family Residence	\$13,281,565,776	54.52%	82,950	81.57%
Condominium/Townhouse	241,900,606	0.99	1,790	1.76
Mobile Home	40,394,418	0.17	1,246	1.23
Mobile Home Park	40,759,447	0.17	34	0.03
2-4 Residential Units	1,190,655,995	4.89	6,392	6.29
5+ Residential Units/Apartments	1,628,781,302	6.69	1,450	1.43
Hotel/Motel	473,934,844	1.95	54	0.05
Miscellaneous Residential	69,606,148	0.29	339	0.33
Vacant Residential	<u>113,993,456</u>	<u>0.47</u>	<u>1,197</u>	<u>1.18</u>
Subtotal Residential	\$17,081,591,992	70.12%	95,452	93.86%
Total	\$24,360,833,460	100.00%	101,692	100.00%

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

Largest Taxpayers

The 20 largest taxpayers in the District, ranked by aggregate assessed value of taxable property, as shown on the 2011-12 secured tax roll, and the amount of each owner's assessed valuation for all taxing jurisdictions within the District, are shown below.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness in the taxpayer's financial situation and ability or willingness to pay property taxes. In 2011-12, no single taxpayer owned more than 0.85% of the total taxable property in the District.

Sacramento City Unified School District Major Taxpayers 2011-12

	<u>Property Owner</u>	<u>Primary Land Use</u>	2011-12 <u>Assessed Valuation</u>	% of <u>Total</u> ⁽¹⁾
1.	Hines Sacramento Wells Fargo Center	Office Building	\$ 206,543,650	0.85%
2.	Campbell Soup Supply Co. LLC	Industrial	139,006,200	0.57
3.	300 Capitol Associates NF LP	Office Building	114,727,450	0.47
4.	621 Capitol Mall LLC	Office Building	113,819,929	0.47
5.	Downtown Plaza LLC	Shopping Center	97,564,740	0.40
6.	CIM & 980 9 th Street Sacramento LP	Office Building	94,707,820	0.39
7.	CIM & J Street Hotel Sacramento LP	Hotel	89,257,915	0.37
8.	Sacramento Equities REIT	Office Building	81,805,660	0.34
9.	500 Capitol Mall LLC	Office Building	76,046,517	0.31
10.	McClatchy Newspapers	Newspaper	73,749,960	0.30
11.	1415 Meridian Plaza LLC/Valley View Investors	Office Building	73,651,635	0.30
12.	Procter & Gamble Manufacturing Co.	Industrial	72,629,154	0.30
13.	Capitol Regency LLC	Hotel	70,634,127	0.29
14.	Hines VAF II Sacramento Properties LP	Office Building	69,272,251	0.28
15.	AREF Sacramento LP	Office Building	68,370,013	0.28
16.	M&H Realty Partners IV LP	Undeveloped	65,489,647	0.27
17.	1325 J Street LLC	Office Building	65,334,239	0.27
18.	Hines REIT 1515 S. Street LP	Office Building	60,911,586	0.25
19.	C Street Business Park LLC	Office Building	55,905,842	0.23
20.	GPT Properties Trust	Office Building	<u>55,615,656</u>	<u>0.23</u>
			<u>\$1,745,043,991</u>	<u>7.16%</u>

⁽¹⁾ 2011-12 Local Secured Assessed Valuation: \$24,360,833,460.

Source: California Municipal Statistics, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), bond counsel to the District, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. The amount treated as interest on the Notes and excluded from gross income may depend upon the taxpayer’s election under Internal Revenue Notice 94-84. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of the opinion of Bond Counsel is set forth in APPENDIX A – “PROPOSED FORM OF OPINION OF BOND COUNSEL” hereto.

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

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

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

One of the covenants of the District referred to above requires the District to reasonably and prudently calculate the amount, if any, of excess investment earnings on the proceeds of the Notes which must be rebated to the United States, to set aside from lawfully available sources sufficient moneys to pay such amounts and to otherwise do all things necessary and within its power and authority to ensure that interest on the Notes is excluded from gross income for federal income tax purposes. Under the Code, if the District spends 100% of the proceeds of the Notes within six months after issuance, there is no requirement that there be a rebate of investment profits in order for interest on the Notes to be excluded from gross income for federal income tax purposes. The Code also provides that such proceeds are not deemed spent until all other available moneys (less a reasonable working capital reserve) are spent. The District expects to satisfy this expenditure test or, if it fails to do so, to make any required

rebate payments from moneys received or accrued during the 2011-12 fiscal year. To the extent that any rebate cannot be paid from such moneys, State law is unclear as to whether such covenant would require the District to pay any such rebate. This would be an issue only if it were determined that the District's calculation of expenditures of Notes proceeds or of rebatable arbitrage profits, if any, was incorrect.

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

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Notes to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Notes to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Notes. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Notes for federal income tax purposes. It is not binding on the Internal Revenue Service or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service. The District has covenanted, however, to comply with the requirements of the Code.

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

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Notes and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is set forth in APPENDIX A – “PROPOSED FORM OF OPINION OF BOND COUNSEL.” Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Legality for Investment in the State of California

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

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Notes to provide, or cause to be provided, to the Municipal Securities Rulemaking Board for purposes of the Rule, notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the notices of certain enumerated events is summarized in APPENDIX C – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with the Rule. As of the date hereof, the District has not failed to comply in all material respects with any previous undertakings with regard to the Rule to file annual reports or notices of certain enumerated events.

Absence of Material Litigation

No litigation is pending or to the knowledge of the District threatened concerning the validity of the Notes, the District’s ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District’s ability to issue and retire the Notes. No litigation is pending or to the knowledge of the District threatened questioning the political existence of the District or contesting the title to their offices of District or County officials who will sign the Notes and other certifications relating to the Notes, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to purchasers at the time of the original delivery of the Notes.

There are a number of lawsuits and claims routinely pending against the District. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

MISCELLANEOUS

Rating

The Bonds have been assigned the rating of “___” by Standard & Poor’s Rating Services (“Standard & Poor’s”). Rating agencies generally base their ratings on their own investigations, studies, and assumptions. The District has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement). The rating reflects only the views of the rating agency, and any explanation of the significance of such rating may be obtained only from Standard & Poor’s at www.standardandpoors.com. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. The District undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel to the District with respect to the Notes and will receive compensation from the District contingent upon the sale and delivery of the Notes. KNN Public Finance, a Division of Zions First National Bank, is acting as Financial Advisor to the District with respect to the Notes and will receive compensation from the District contingent upon the sale and delivery of the Notes.

Underwriting

Pursuant to a negotiated sale held on _____, 2012, De La Rosa & Co., as the original purchaser, will purchase the Notes from the District at the purchase price of \$_____, representing the principal amount of the Notes, plus original issue premium thereon (\$_____), less Underwriter's compensation (\$_____).

The Underwriter has certified the reoffering price or yield set forth on the cover hereof at which the Notes have been reoffered to the public. The underwriting compensation is based on such certification. The Underwriter may offer and sell the Notes to certain dealers and others at prices lower than the public offering price shown on the cover page hereof. The offering price may be changed from time to time by the Underwriter. The Underwriter will be obligated to take and pay for all of the Notes if any are purchased.

Additional Information

Quotations from and summaries and explanations of the Notes, the Resolution providing for issuance of the Notes, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

All data contained herein have been taken or constructed from the District's records and other sources, as indicated.

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The preparation, execution and distribution of this Official Statement have been duly authorized and approved by the Board of Education of the District.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

By: _____
Chief Business Officer

APPENDIX A
PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2011**

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Sacramento City Unified School District (the "District") in connection with the issuance of the above-named notes (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Education of the District on _____, 2012 (the "Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Notes and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission ("S.E.C.") Rule 15c2-12(b)(5).

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

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Notes (including persons holding Notes through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holders" shall mean either the registered owners of the Notes, or, if the Notes are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

"Listed Events" shall mean any of the events listed in Section 3(a) or 3(b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"Participating Underwriter" shall mean the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

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

SECTION 3. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;

4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 3(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Notes or other material events affecting the tax status of the Notes;
2. Modifications to rights of Note holders;
3. Optional, unscheduled or contingent Note calls;
4. Release, substitution, or sale of property securing repayment of the Notes;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 3(b), the District shall determine if such event would be material under applicable federal securities laws.

(d) If the District learns of the occurrence of a Listed Event described in Section 3(a), or determines that knowledge of a Listed Event described in Section 3(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not

be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Notes pursuant to the Resolution.

SECTION 4. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the District shall give notice of such termination in a filing with the MSRB.

SECTION 6. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions of Sections 3(a) or 3(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Notes, or the type of business conducted;
- (b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized Bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver does not, in the opinion of nationally recognized Bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Notes.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: _____, 2012

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

By _____
Authorized Officer

APPENDIX D

**COUNTY OF SACRAMENTO
INVESTMENT POLICIES AND PRACTICES AND INVESTMENT POOL QUARTERLY REPORT**

The following information provides a general description of the County's investment policy, current portfolio holdings and valuation procedures. The information has been furnished by the County Director of Finance for use as disclosure information on securities issues. The District makes no guaranty as to the accuracy or completeness of this information. Further information may be obtained directly from the Director of Finance. The County of Sacramento maintains up-to-date Investment Reports at the following website: <http://www.finance.saccounty.net/investments/>.

SACRAMENTO COUNTY

**Annual Investment Policy of the
Pooled Investment Fund**

CALENDAR YEAR 2012

*Approved by the
Sacramento County Board of Supervisors*

[TO BE INSERTED AT THE TIME OF PRINTING]

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the beneficial owners either (a) payments of interest, principal or premium, if any, with respect to the Notes or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Notes, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Notes, "Issuer" means the District, and "Agent" means the Paying Agent.

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

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

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

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an

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

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

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

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

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

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

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

11.

12.

NOTE PURCHASE AGREEMENT

\$ _____

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
2011-12 TAX AND REVENUE ANTICIPATION NOTES**

_____, 2012

Board of Education,
Sacramento City Unified School District
c/o KNN Public Finance
1333 Broadway
Oakland, CA 94612

Ladies and Gentlemen:

The undersigned (the “Purchaser”) offers to enter into this Note Purchase Agreement (this “Purchase Agreement”) with the Board of Education of the Sacramento City Unified School District (the “District”), acting through its Superintendent. The offer made hereby is subject to acceptance by the District by execution and delivery of this Purchase Agreement to the Purchaser at or prior to 11:59 p.m., California time, on the date hereof, but it shall be irrevocable until such time as it is sooner accepted or rejected by the District. Upon acceptance of this offer by the District in accordance with the terms hereof, this Purchase Agreement will be binding upon the District and upon the Purchaser.

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, covenants and agreements hereinafter set forth, the Purchaser hereby agrees to purchase from the District for offering to the public, and the District hereby agrees to sell to the Purchaser for such purpose, all (but not less than all) of the \$_____ aggregate principal amount of the District’s Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Notes (the “Notes”) at a Purchase Price of \$_____ (consisting of the principal amount of the Notes, plus an original issue premium of \$_____, less an underwriter’s discount of \$_____). The true interest cost for the Notes is _____%.

2. The Notes. The Notes shall be issued pursuant to Sections 53850 to 53858, both inclusive, of the Government Code of the State of California (herein called the “Government Code”) (being Article 7.6 of Chapter 4 of Part 1 of Division 2 of Title 5 of said Code, and herein called the “Act”), and in accordance with Resolution No. ____ of the District, adopted by the Board of Education of the District on _____, 2012 (the “Resolution”). The Notes shall conform in all respects to the terms and provisions set forth in the Resolution. The County Director of Finance has been appointed to act as Paying Agent with respect to the Notes pursuant to the Resolution.

A single maturity of Notes shall be issued, dated the date of Closing (as defined in Section 9 hereof), and the Notes shall mature on _____, 2012, without possibility of prior redemption. The Notes shall bear interest at the rate of ____ and _____ percent (____%) per annum. [The Notes shall otherwise be as described in the Official Statement of the District with respect to the Notes, dated _____, 2012 (the "Official Statement")].

As security for the payment of the principal of and interest on the Notes, the District hereby covenants to deposit in trust for the registered owners of the Notes in a special fund designated as the "Sacramento City Unified School District 2011-12 Tax and Revenue Anticipation Note Repayment Fund" (the "Repayment Fund"):

(i) an amount equal to __% of the principal amount of the Notes from the first Unrestricted Revenues to be received by the District during the month ending [August 31], 2012; and

(ii) an amount equal to __% of the principal amount of the Notes, plus an amount sufficient to pay the interest on the Notes at maturity, together with an amount sufficient to satisfy and make up any deficiency in the Repayment Fund with respect to the prior deposit, from the first Unrestricted Revenues to be received by the District during the month ending [October 31], 2012.]

A single certificate for the Notes will be prepared and delivered as described in Section 9 hereof, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, NY ("DTC"), and will be made available to the Purchaser for inspection at such place as may be mutually agreed to by the Purchaser and the District, not less than one business day prior to the Closing. The Purchaser shall order CUSIP identification numbers and the District shall cause such CUSIP identification numbers to be printed on the Notes, but neither the failure to print such number on any Note nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Notes in accordance with the terms of this Purchase Agreement.

3. Offering. The Purchaser agrees to make a bona fide public offering of all the Notes. For purposes of permitting the District to determine the yield on the Notes, the Purchaser will provide the District with information regarding the price at which the Notes were reoffered to the public in form and substance as Bond Counsel shall require.

The District hereby ratifies, approves, and confirms the distribution of this Purchase Agreement, the Resolution, and the Preliminary Official Statement of the District, dated February __, 2012 (together with the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto, the "Preliminary Official Statement"), in connection with the public offering and sale of the Notes by the Purchaser.

The Purchaser hereby represents that it has received and reviewed the Preliminary Official Statement, and agrees that it will provide, consistent with the requirements of Municipal Securities Rulemaking Board ("MSRB") Rule G-32, for the delivery of a copy of the Official Statement to each customer who purchases any Notes during the underwriting period (as such term is defined in MSRB Rule G-11), and to deliver a copy of the Official Statement to the MSRB on or before the date of Closing, and otherwise to comply with all applicable statutes and regulations in connection with the offering and sale of the Notes, including, without limitation, MSRB Rule G-32 and 17 CFR Section 240.15c2-12, promulgated by the Securities and Exchange Commission ("Rule 15c2-12").

The Purchaser hereby agrees that prior to the time the final Official Statement is available, the Purchaser will send to any potential purchaser of the Notes, upon request, a copy of the

most recent Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

The District will electronically deliver to the Purchaser within seven business days from the date hereof, of the Official Statement of the District with respect to the Notes, signed on behalf of the District by an authorized officer thereof, dated as of the date hereof, substantially in the form of the Preliminary Official Statement with such changes thereto as shall be approved by the Purchaser, which approval shall not be unreasonably withheld, and with up to 100 copies (as the Purchaser shall request) to follow by mail as soon as is practical.

The District acknowledges and agrees that (i) the purchase and sale of the Notes pursuant to this Purchase Agreement is an arm's-length commercial transaction between the District and the Purchaser, (ii) in connection with such transaction the Purchaser has not assumed a fiduciary responsibility in favor of the District, and (iii) the District has consulted with its legal and other professional advisors to the extent they deemed appropriate in connection with the offering of the Notes.

4. Representations and Agreements of the District. The District represents to and agrees with the Purchaser that, as of the date hereof and as of the date of the Closing:

(a) The District is a school district duly organized and validly existing under the Constitution and general laws of the State of California.

(b) The District is duly authorized and has full legal right, power and authority to issue, sell and deliver the Notes, pursuant to the Resolution, and to provisions of the laws of the State of California.

(c) The District has full legal right, power and authority to enter into this Purchase Agreement, to adopt the Resolution, and to observe and perform the covenants and agreements of this Purchase Agreement and the Resolution required to be observed and performed by the District.

(d) The District has duly adopted the Resolution in accordance with the laws of the State; the Resolution is in full force and effect and has not been amended, modified or rescinded, and all representations of the District set forth in the Resolution are true and correct; the District has duly authorized and approved the execution and delivery of, and the observance and performance by the District through its officers and agents of its covenants and agreements contained in the Notes and this Purchase Agreement required to have been observed or performed at or prior to the date of Closing; and the District has complied, and will at the Closing be in compliance in all respects, with the obligations in connection with the issuance of the Notes on its part contained in this Purchase Agreement, the Resolution, and the Notes.

(e) The District represents to the Purchaser that the Preliminary Official Statement was "deemed final" by the District as of the date thereof within the meaning of paragraph (a)(2) of Rule 15c2-12, except for the omission of some or all of such information the omission of which is permitted under Rule 15c2-12.

(f) The Preliminary Official Statement as of its date, and the Official Statement as of its date, and if supplemented or amended, as of the date of any such supplement or amendment, do not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they

were made, not misleading; in each case excluding therefrom any information contained therein relating to DTC or its book-entry only system, information relating to the reoffering of the Notes provided by the Underwriter, or information describing the County's investment policy, current portfolio holdings, and valuation procedures, as to all of which the District expresses no view. Except as otherwise covenanted in the Continuing Disclosure Certificate of the District, the District disclaims any obligation after the date of Closing to update the Preliminary Official Statement and the Official Statement.

(g) The District will undertake, pursuant to the Resolution and a Continuing Disclosure Certificate, to provide notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

(h) The District has, and has had, no financial advisory relationship with the Purchaser with respect to the Notes, nor with any investment firm controlling, controlled by or under common control with the Purchaser.

(i) The District has received determination from the County superintendent of schools that the District's repayment of the Notes is probable pursuant to Education Code Section 42133.

(j) The District is fiscally accountable as defined in Education Code §42650.

(k) Between the date hereof and the Closing, the District will not modify or amend the Resolution without the prior written consent of the Purchaser.

5. Representations and Agreements of the Purchaser. The Purchaser represents to and agrees with the District that, as of the date hereof and as of the date of the Closing:

(a) The Purchaser is duly authorized to execute this Purchase Agreement and to take any action under this Purchase Agreement required to be taken by it.

(b) The Purchaser is in compliance with MSRB Rule G-37 with respect to the County and the District, and is not prohibited thereby from acting as underwriter with respect to securities of the District.

(c) The Purchaser has, and has had, no financial advisory relationship with the District with respect to the Notes and no investment firm controlling, controlled by or under common control with the Purchaser has or has had any such financial advisory relationship.

(d) The Purchaser has reasonably determined that the District's undertaking pursuant to Sections 5(f) and 7(j) hereof to provide continuing disclosure with respect to the Notes is sufficient to effect compliance with Rule 15c2-12.

6. Conditions to Closing. At or before Closing, and contemporaneously with the acceptance of delivery of the Notes, and the payment of the purchase price thereof, the District will provide to the Purchaser:

(a) a certificate, signed by an official of the District, confirming to the Purchaser that, the Preliminary Official Statement as of its date, and the Official Statement as of its date, and as of the date of Closing, to the best of the knowledge of said official, do not contain any

untrue statements of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and that there has been no material adverse change in the financial condition or affairs of the District which would make it unreasonable for the purchaser of the Notes to rely upon the Official Statement in connection with the resale of the Notes, excluding in each case any information contained in the Official Statement relating to DTC or its book-entry only system, information relating to the reoffering of the Notes provided by the Underwriter, and information contained therein describing the County's investment policy, current portfolio holdings, and valuation procedures;

(b) a certificate, signed by an official of the County, confirming to the Purchaser that the Preliminary Official Statement as of its date, and the Official Statement as of its date and at the time of Closing, to the best of the knowledge of said official, solely with respect to the information contained therein describing the County's investment policy, current portfolio holdings, and valuation procedures (as they relate to funds of the District held by the County Treasurer), do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

(c) a certificate or certificates, signed by appropriate officials of the District, confirming to the Purchaser that, as of the date of this Purchase Agreement and at the time of Closing, to the best of the knowledge of said official or officials, there is no litigation pending concerning the validity of the Notes, the corporate existence of the District, or the entitlement of the officers of the District who shall sign the Notes, or any other documents and certificates to be executed in connection with the delivery of the Notes, to their respective offices;

(d) a certificate or certificates, signed by an official of the District, confirming to the Purchaser that as of the date of Closing all of the representations of the District contained in this Purchase Agreement are true, and that the Resolution is in full force and effect and has not been amended, modified or rescinded;

(e) the Opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel with respect to the issuance of the Notes ("Bond Counsel"), addressed to the District, approving the validity of the Notes substantially in the form set forth as Appendix A to the Official Statement;

(f) A supplemental opinion of Bond Counsel, addressed to the Purchaser, to the effect that:

(i) the Purchase Agreement has been duly executed and delivered by the County and the District and is a valid and binding agreement of the District, except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against school districts and counties in the State and except that no opinion need be expressed with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability;

(ii) the statements contained in the Official Statement in the sections thereof entitled "THE NOTES," "TAX MATTERS," and the Appendix containing the form of approving opinion, excluding any material that may be treated as included under such

captions by cross-reference, insofar as such statements expressly summarize certain provisions of the Resolution and the Notes and the form and content of the approving opinion, are accurate in all material respects; and

(iii) the Notes are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

(g) the duly executed Tax Certificate of the District, dated the date of Closing, in form satisfactory to Bond Counsel;

(h) a letter from Standard & Poor's Rating Services to the effect that the Notes have been rated "____" (or such other equivalent rating as such rating agency may give), and that such rating has not been revoked or downgraded;

(i) the receipt of the County Treasurer confirming payment by the Purchaser of the purchase price of the Notes;

(j) the Continuing Disclosure Certificate of the District with respect to the Notes, in substantially the form attached to the Preliminary Official Statement, containing such covenants of the District as shall be necessary to facilitate compliance by the Purchaser with the requirements of Securities and Exchange Commission Rule 15c2-12; and

(m) a certificate, signed by an official of the County, confirming to the District, that the repayment of the Notes by the District is probable pursuant to Education Code Section 42133(a).

At or before Closing, and contemporaneously with the acceptance of delivery of the Notes and the payment of the purchase price thereof, the Purchaser will provide to the District:

(a) the receipt of the Purchaser, in form satisfactory to the District and signed by an authorized officer of the Purchaser, confirming delivery of the Notes to the Purchaser and the satisfaction of all conditions and terms of this agreement by the District and confirming to the District that as of the Closing Date all of the representations of the Purchaser contained in this Purchase Agreement are true and correct in all material respects; and

(b) the reoffering price certificate of the Purchaser in form satisfactory to Bond Counsel.

7. Termination. (a) By District. In the event of the District's failure to cause the Notes to be delivered at the Closing, or inability of the District to satisfy the conditions to the obligations of the Purchaser contained herein (unless waived by the Purchaser), or if the obligations of the Purchaser shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate.

(b) By Purchaser.

(1) Excused. The Purchaser may terminate this Purchase Agreement, without any liability therefor, by notification to the District if as of the date of Closing any of the following shall have had a material adverse effect on the marketability of the Notes, in the reasonable opinion of the Purchaser, upon consultation with the District:

(A) There shall have occurred and be continuing the declaration of a general banking moratorium by any authority of the United States or the State of New York or the State of California;

(B) There shall be in force a general suspension of trading or other material restrictions not in force as of the date hereof on the New York Stock Exchange or other national securities exchange;

(C) Legislation shall have been enacted by the Congress of the United States, or a decision shall have been rendered by a court of the United States, or the United States Tax Court, with respect to federal taxation of interest received on securities of the general character of the Notes, or legislation shall have been enacted by the State of California which renders interest on the Notes not exempt from State of California personal income taxes;

(D) Legislation shall have been enacted, or a decision of a court of the United States shall have been rendered or any action shall have been taken by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction in the subject matter which, in the opinion of Bond Counsel, has the effect of requiring the contemplated distribution of the Notes to be registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the Resolution to be qualified under the Trust Indenture Act of 1939, as amended; or

(E) There shall have occurred any new outbreak or escalation of war or similar armed hostilities or other national or international calamity or crisis.

(F) Any rating of the Notes by a national rating agency shall have been withdrawn or downgraded.

(2) Unexcused. In the event the Purchaser shall fail (other than for a reason permitted by this Purchase Agreement) to pay for the Notes upon tender of the Notes at the Closing, the Purchaser shall have no right in or to the Notes.

8. Closing. At or before 9:00 a.m., California time, on _____, 2012, or at such other date and time as shall have been mutually agreed upon by the District and the Purchaser, the District will deliver or cause to be delivered to the Purchaser the Notes in book-entry form, together with the other documents described in Section 7 hereof to be delivered by the District; and the Purchaser will accept such delivery and pay the purchase price of the Notes as set forth in Paragraph 1 hereof in immediately available funds (e.g., by federal funds wire), and shall deliver to the District the other documents described in Section 7 hereof to be delivered by the Purchaser, as well as any other documents or certificates Bond Counsel shall reasonably require.

Payment for the delivery of the Notes as described herein shall be made at the offices of the Director of Finance, in Sacramento, California, or at such other place as shall have been mutually agreed upon by the County and the Purchaser. The Notes will be delivered through the facilities of DTC in New York, New York, or at such other place as shall have been mutually agreed upon by the District and the Purchaser. All other documents to be delivered in connection with the delivery of the Notes shall be delivered at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California. Such payment and delivery is herein called the "Closing."

9. Expenses. The District shall pay the expenses incident to the performance of its obligations hereunder from the proceeds of the Notes (or from any other source of available funds of the District) including, but not limited to: (i) the cost of the preparation and reproduction of the Resolution; (ii) the fees and disbursements of Bond Counsel; (iii) the fees and disbursements of the financial advisor to the District; (iv) the costs of the preparation, printing and delivery of the Notes; (v) the costs of the preparation, printing and delivery of the Preliminary Official Statement, the Official Statement, and any amendment or supplement thereto in the quantity requested by the Purchaser in accordance with this Purchase Agreement; (vi) initial rating fee of Standard & Poor's Rating Services; and (vii) fees and expenses of the Paying Agent for the Notes.

All costs and expenses incurred by the Purchaser as a result of or in connection with the purchase of the Notes and their public offering and distribution shall be borne by the Purchaser, including, but not limited to (i) clearing house fees; (ii) DTC fees; (iii) CUSIP fees; (iv) fees required to be paid to the California Debt and Investment Advisory Commission ("CDIAC"); (v) fees required to be paid to The Securities Industry and Financial Markets Association (SIFMA); (vi) MSRB fees; (vii) costs or fees of qualifying the Notes for offer and sale in various states chosen by the Purchaser and the costs or fees of preparing Blue Sky or legal investment memoranda to be used in connection therewith; and (viii) fees of any counsel to the Purchaser.

10. Notices. Any notice or other communication to be given under this Purchase Agreement (other than the acceptance hereof as specified in the introductory paragraph hereof) may be given by delivering the same in writing to the address of each party given below, or such other address as the District, County or the Purchaser may designate by notice to the other parties:

To the District: Sacramento City Unified School District
5735 47th Street
Sacramento, CA 95823
Attn: Patty A. Hagemeyer, Chief Business Officer

To the County: Director of Finance
County of Sacramento
700 H Street, Room 3650
Sacramento, CA 95814
Attn: Julie Valverde, Director of Finance

To the Purchaser: E. J. De La Rosa & Company, Inc.
10866 Wilshire Blvd., Suite 1650
Los Angeles, CA 90024
Attn: Robert Barna

11. Governing Law. The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State of California.

12. Parties in Interest. This Purchase Agreement when accepted by the District in writing as heretofore specified shall constitute the entire agreement among the District and the Purchaser, and is solely for the benefit of the District and the Purchaser (including the successors or assigns thereof). No other person shall acquire or have any rights hereunder or by virtue hereof. All representations and agreements in this Purchase Agreement of each of the parties hereto shall remain operative and in full force and effect, regardless of (a) delivery of and payment for the Notes hereunder, or (b) any termination of this Purchase Agreement.

13. Headings. The headings of the paragraphs of this Purchase Agreement are inserted for convenience of reference only and shall not be deemed to be a part hereof.

14. Effectiveness. This Purchase Agreement shall become effective upon the execution of the acceptance hereof by the District by the authorized officer thereof, and shall be valid and enforceable at the time of such acceptance.

15. Counterparts. This Purchase Agreement may be executed in several counterparts, which together shall constitute one and the same instrument.

Respectfully submitted,

E. J. DE LA ROSA & CO., INC.

By: _____
Authorized Officer

Accepted: _____, 2012

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

Time: _____ p.m.

By: _____
Superintendent

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
2011-12 TAX AND REVENUE ANTICIPATION NOTES
PAYING AGENT AGREEMENT

This Paying Agent Agreement (the "Agreement"), executed and entered into as of _____, 2012, by and between the Sacramento City Unified School District (the "District") and the County of Sacramento (the "County");

W I T N E S S E T H:

WHEREAS, the District, by its Resolution No. ____ (the "Notes Resolution") adopted by the Board of Education of the District on _____, 2012, has authorized the issuance of the District's 2011-12 Tax and Revenue Anticipation Notes (the "Notes") in an aggregate principal amount of \$ _____; and

WHEREAS, the County, by resolution adopted by the Board of Supervisors of the County on March 27, 2012, has appointed the Director of Finance of the County (the "Director of Finance") to act as paying agent, registrar and transfer agent for the Notes, and the Director of Finance desires to accept such appointment; and

WHEREAS, the Board of Supervisors of the County and the Board of Education of the District have each authorized the execution and delivery of this Agreement with respect to the Notes;

NOW THEREFORE, the District and the County agree as follows:

1. The Director of Finance will act as Paying Agent, Registrar and Transfer Agent (the "Paying Agent") with respect to the Notes pursuant to the Notes Resolution. The Director of Finance will maintain records as to the identity of the registered owners of all the Notes, and will effect transfers of registered ownership of Notes upon surrender of Notes to the Director of Finance accompanied by such instruments of transfer and other documents as he may require, and will cancel all Notes surrendered to him for transfer or payment and will dispose of such cancelled Notes at the written direction of the District, and (if the District notifies the Director of Finance of the loss, destruction or theft of any of the Notes) will place a stop transfer order against such Notes and will take instructions from the District with respect to the issuance of any replacement Notes; provided, that the Director of Finance may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, coupon or other paper or document reasonably believed by him to be genuine and to have been signed or presented by the proper party or parties.

2. The Director of Finance or an authorized deputy thereof will authenticate each Note certificate prior to the initial delivery thereof by executing the Certificate of Authentication printed thereon by a manual signature, authenticating the manual or facsimile signature of the authorized officers of the District pursuant to Section 7 of the Notes Resolution. The Director of Finance or an authorized deputy thereof will authenticate replacement Notes for Notes

exchanged, transferred, or mutilated, or otherwise in substitute for Note certificates at the times and under the conditions prescribed in the Notes Resolution.

3. The Director of Finance will prepare and deliver checks for the payment of the interest on and the principal of the Notes (or will provide payment by federal funds wire transfer as specified in the Notes Resolution) at the maturity of the Notes as required by the terms of the Notes Resolution and the Notes.

4. The District will cause to be transferred to the Director of Finance prior to the maturity date of the Notes sufficient funds to pay all interest and principal payable on the Notes due on such maturity date. Any money deposited with the Director of Finance for the payment of the interest on or principal of the Notes and remaining unclaimed for two years after such interest or principal shall have become due and payable shall be repaid to the District, and all liability of the Director of Finance with respect thereto shall thereupon cease. The Director of Finance shall, as *ex officio* Treasurer of the District, provide for the periodic set-aside of funds for payment of principal of and interest on the Notes, as required by the Notes Resolution and the Notes, from lawfully available funds on deposit in the General Fund of the District and held by the Director of Finance.

5. Pursuant to the Notes Resolution, the Director of Finance shall create a Note Proceeds Fund and a Repayment Fund of the District within the General Fund of the District, and shall hold and invest moneys on deposit in such funds as the District shall direct pursuant to the Notes Resolution. The Director of Finance shall hold all moneys deposited in the Repayment Fund hereunder and under the Notes Resolution in trust for the benefit of the owners of the Notes. The Director of Finance shall have no duties with respect to the investment of any moneys deposited with him as Paying Agent hereunder, unless otherwise directed by the District. The Director of Finance shall not be required to pay interest on any uninvested funds held by the Director of Finance hereunder.

6. Notwithstanding Section 5 hereof, the Director of Finance shall continue in her duties with respect to funds of the District as the Director of Finance of the County and as *ex officio* Treasurer of the District.

7. The Director of Finance may consult with legal counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered, or omitted by him hereunder in good faith and in reliance thereon, and reasonable costs of such counsel will be reimbursed by the District, and the Director of Finance shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, coupon or other paper or document, but in her discretion may make such further inquiry or investigation into such facts or matters as she may see fit, and, if the Director of Finance shall determine to make such further inquiry or investigation, she shall be entitled to examine the books and records of the District, personally or by agent or attorney.

8. The District shall reimburse the Director of Finance for all actual costs incurred by him and her staff in connection with her appointment as Paying Agent hereunder and for all her advances and expenditures, including, but not limited to, advances to and fees and expenses

of independent accountants or counsel employed by him in the exercise and performance of her powers and duties hereunder, and, to the extent permitted by law, the District shall indemnify, defend and save the Director of Finance and her agents and employees harmless against losses, costs, expenses and liabilities, including fees and expenses of her attorneys, not arising from her own negligence or willful misconduct, which he may incur in the exercise and performance of her powers and duties hereunder.

9. This Agreement shall remain in effect until the payment of all of the Notes and all funds are disbursed or until this Agreement is amended or terminated; provided, that this Agreement may be terminated by written notice of either party to the other.

10. If, at any time, the Director of Finance shall submit its resignation as Paying Agent hereunder, or the County or Director of Finance shall determine to terminate this Agreement, then the Director of Finance shall, in her sole discretion, immediately appoint a successor paying agent to act as Paying Agent for the District with respect to the Notes; provided that, if an immediate successor cannot be found, then the replacement or resignation of the Director of Finance hereunder shall not take effect until such successor paying agent is able to assume the duties of Paying Agent under the Notes Resolution.

11. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto hereby execute this Paying Agent Agreement as of the date first above written.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

By _____
Chief Business Officer

COUNTY OF SACRAMENTO

By _____
Director of Finance

APPROVED AS TO FORM:

By _____
County Counsel

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2011-12 TAX AND REVENUE ANTICIPATION NOTES**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Sacramento City Unified School District (the “District”) in connection with the issuance of the above-named notes (the “Notes”). The Notes are being issued pursuant to a resolution adopted by the Board of Education of the District on _____, 2012 (the “Resolution”). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Notes and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission (“S.E.C.”) Rule 15c2-12(b)(5).

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

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Notes (including persons holding Notes through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the District, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“Holders” shall mean either the registered owners of the Notes, or, if the Notes are registered in the name of The Depository Trust Company or another recognized depository, any Beneficial Owner or applicable participant in its depository system.

“Listed Events” shall mean any of the events listed in Section 3(a) or 3(b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

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

SECTION 3. Reporting of Significant Events.

(a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 3(a)(5), adverse tax opinions or other material notices or determinations by the Internal Revenue Service with

respect to the tax status of the Notes or other material events affecting the tax status of the Notes;

2. Modifications to rights of Note holders;
3. Optional, unscheduled or contingent Note calls;
4. Release, substitution, or sale of property securing repayment of the Notes;
5. Non-payment related defaults;
6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 3(b), the District shall determine if such event would be material under applicable federal securities laws.

(d) If the District learns of the occurrence of a Listed Event described in Section 3(a), or determines that knowledge of a Listed Event described in Section 3(b) would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Notes pursuant to the Resolution.

SECTION 4. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 5. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the District shall give notice of such termination in a filing with the MSRB.

SECTION 6. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver does not, in the opinion of nationally recognized Bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Notes.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: _____, 2012

SACRAMENTO CITY UNIFIED SCHOOL
DISTRICT

By _____
Authorized Officer