

PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2011

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.

\$ _____*
**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2010-11 TAX AND REVENUE ANTICIPATION NOTES**

Dated: Date of Delivery

Due: [October 1], 2011



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 2010-11 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 2010-11 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 _____ 30, 2011. 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>
[October 1], 2011	\$ _____*	____%	____%	_____

The Notes will be offered when, as and if issued by the District and received by the Underwriter, subject to approval of their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel and Disclosure Counsel to the District. 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 _____, 2011.

Dated _____, 2011.

* 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 over allot 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

Gustavo Arroyo
President

Patrick Kennedy
First Vice President

Ellyne Bell
Second Vice President

Jeff Cuneo
Member(Area 2)

Donald Terry
Member (Area 3)

Diana Rodriguez
Member(Area 5)

Darrel Woo
Member (Area 6)

Arthur Fong
Student Member

DISTRICT ADMINISTRATION

Jonathan Raymond
Superintendent and Board Secretary

Patricia 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 National Bank
Oakland, California

TABLE OF CONTENTS

	Page
INTRODUCTION.....	1
The District.....	1
Continuing Disclosure.....	2
THE NOTES.....	2
Purpose of the Notes.....	2
Authority for Issuance.....	2
General Provisions of the Notes.....	2
Security and Sources of Payment.....	3
Bankruptcy Risks.....	4
Investment of Note Proceeds and Repayment Fund.....	4
Sources and Uses of Funds.....	4
DISTRICT FINANCIAL AND OPERATING INFORMATION.....	5
State Funding of Education; State Budget Process.....	5
District Revenues.....	8
District Expenditures.....	10
Summary of District Revenues and Expenditures.....	11
District Cash Flows.....	13
District Debt Structure.....	16
Restricted Maintenance Reserve Account.....	16
Capital Financing Plan.....	17
Insurance, Risk Pooling and Joint Powers Arrangement.....	17
Charter Schools.....	17
Capital Lease.....	18
CASA Pension Program and Pension Program Revenue Bonds.....	18
SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS.....	19
District Budget Process and County Review.....	19
Accounting Practices.....	20
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS.....	20
Limitations on Revenues.....	20
Expenditures and Appropriations.....	22
LOCAL PROPERTY TAXATION.....	23
Assessed Valuation of Property Within the District.....	23
Taxation of State-Assessed Utility Property.....	25
Tax Levies, Collections and Delinquencies.....	25
Largest Taxpayers.....	28
TAX MATTERS.....	28
OTHER LEGAL MATTERS.....	30
Legal Opinion.....	30

TABLE OF CONTENTS
(continued)

	Page
Legality for Investment in the State of California	30
Continuing Disclosure	30
Absence of Material Litigation.....	31
MISCELLANEOUS	31
Rating	31
Professionals Involved in the Offering.....	31
Underwriting	31
Additional Information.....	31
APPENDIX A PROPOSED FORM OF OPINION OF BOND COUNSEL.....	A-1
APPENDIX B FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2010	B-1
APPENDIX C FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	C-1
APPENDIX D COUNTY OF SACRAMENTO INVESTMENT POLICIES AND PRACTICES – INVESTMENT POOL QUARTERLY REPORT	D-1
APPENDIX E BOOK-ENTRY ONLY SYSTEM.....	E-1

§ _____ *

**SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
(SACRAMENTO COUNTY, CALIFORNIA)
2010-11 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 2010-11 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 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 Deputy Superintendent/Chief Financial 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 (the "County"), is the 12th largest school districts 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 2010-11 was 48,450 and the District's 2010-11 budgeted general fund expenditures are approximately \$416 million as of the second 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), eight comprehensive high schools (grades 9-12), one independent study school, two continuation/alternative schools, four adult education centers, four dependent charter schools, two special education centers and 25 children's centers which includes preschools. Eleven total charter schools also operate in the District serving kindergarten through grade 12 ("K-12") with a total estimated enrollment of 4,171 students. As of June 30, 2010, the District employed approximately 3,689 employees which include 2,197 certificated (credentialed teaching) employees, 1,299 classified (noninstructional) employees and 193 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 30 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 April 28, 2011, 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.

General Provisions of the Notes

Issuance and Maturity: The Notes will be dated the date of delivery thereof, and, assuming delivery on _____, 2011, will mature on [October 1], 2011.

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, 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 2010-11 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 _____, 20__; 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 _____, 20__. 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 of fiscal year 2010-11, 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 2010-11 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 for the Notes (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 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 bankrupt 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

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 a special 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 of California 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 - INVESTMENT POOL QUARTERLY REPORT" herein for a description of the County's investment policy, current portfolio holdings and valuation procedures.

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)
2010-11 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 California, the District's operating income consists primarily of two components: a State 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 2010-11. The District has budgeted to receive approximately \$109 million in State categorical funding in fiscal year 2010-11, or about 26% 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. The Governor signed the 2010-11 Budget on October 8, 2010, the latest budget in California history.

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. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. 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. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White* decision to have any long-term effect on its operating budgets.

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 2004 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.

2010-11 State Budget. The following information is adapted from a report on the adopted State budget prepared by the Legislative Analyst. The State's fiscal year 2010-11 budget projects \$89 billion of resources available, and \$86 billion of expenditures, with an ending general fund balance of \$1.3 billion. To achieve balance, the state budget includes \$7.8 billion in expenditure cuts, including a reduction of \$1.8 billion in State employee payroll, benefit and related costs, primarily derived from future union agreements or other administrative actions,

\$450 million in savings from reduced general fund departmental hiring, and \$130 million in savings from reduced departmental operating costs related to the workforce cap. The budget also assumes the State will receive \$5.4 billion of new federal funding (most of which has yet to be approved by Congress), assumes \$3.3 billion of increased revenue, including \$1.4 billion in higher assumed baseline State revenues, and assumes the State will be authorized and able to make \$2.7 billion of largely one-time loans, transfers and funding shifts.

The spending cuts described above include a \$3.4 billion reduction in education costs due to suspension of the Proposition 98 minimum guarantee. Despite suspension of Proposition 98, ongoing Proposition 98 funding is budgeted to increase \$115 million from the estimated fiscal year 2009-10 funding level to \$49.7 billion, of which the State expects to contribute \$36.2 billion, with local property taxes contributing \$13.4 billion. However, had the Legislature not suspended Proposition 98, the estimated guaranteed amount would have been \$53.8 billion.

The adopted 2010-11 State budget projects that fiscal year 2009-10 spending for education did not fully fund that year's minimum guaranteed amount, creating a new settle-up obligation estimated at \$1.8 billion. The adopted 2010-11 State budget provides \$300 million toward this obligation, which will be provided in the form of \$90 million for annual education mandate costs, and \$210 million for school districts' and community colleges' unpaid prior-year mandate claims, to be distributed on an equal per-student basis.

State Proposition 98 funding for K-12 schools is budgeted to be \$32.2 billion, or about 1.9% higher than the \$31.6 billion spent in 2009-10. Local property tax revenue, however, is expected to decline about 4.8% from the 2009-10 level of \$12.1 billion to contribute \$11.5 billion to K-12 schools in 2010-11. K-12 education is also slated to receive \$1.5 billion in special one-time federal funding, \$1.2 billion of which is from recent federal grants provided to help retain teaching jobs, and \$272 million is from the last round of federal stabilization funding from the 2009 federal stimulus package.

The reliance on one-time solutions in fiscal year 2009-10 has resulted in the need for 2010-11 reductions. These reductions are mostly treated as deferrals of payments rather than cuts. The adopted State budget defers \$1.7 billion of funding from spring of 2011 to July of 2011 (the next fiscal year). Virtually all other K-12 reductions are technical adjustments designed to align appropriations with anticipated program costs, such as for the K-3 Class Size Reduction program.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Certificates, and the District takes no responsibility for informing owners of the Certificates as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Proposed 2011-12 State Budget. On January 10, 2011, the Governor released his proposed budget for fiscal year 2011-12 (the "2011-12 Proposed Budget"). The 2011-12 Proposed Budget projects that the State will face a budget deficit of \$26 billion at the end of fiscal year 2011-12, absent corrective budget actions by the State Legislature and the Governor. The 2011-12 Proposed Budget includes approximately \$13 billion in spending reductions as a part of an attempt to close the State's budget gap, including substantial cuts to most major programs. The 2011-12 Proposed Budget also proposes approximately \$13 billion in new revenues, including revenues to be generated from the extension of certain taxes, which will be subject to voter approval. On March 17, 2011, both houses of the State legislature passed Senate Bill 70 ("SB70"), a bill that included part of the proposed \$13 billion of spending reductions and that focused specifically on State funding of education. As enrolled, the SB70:

- Provides a revenue limit deficit factor of 19.892 percent to reflect a \$106.6 million deficit for county offices of education ("COEs") and a revenue limit deficit factor of 19.608 percent to reflect a deficit of

\$7.7 billion for school districts. These statutory factors are created to establish State intent to repay the K-12 per-pupil reductions in the future, including foregone cost-of-living adjustments (“COLAs”).

- Defers an additional \$2.1 billion in K-12 funds from 2011-12 to 2012-13. Specifically, the bill shifts \$1.3 billion in March 2012 payments and \$763 million in April 2012 payments to August 2012. This schedule is shorter than the 13 month deferral proposed in the 2011-12 Proposed Budget. With the addition of this deferral, the State now defers over \$10 billion or one-fifth of Proposition 98 funding from one year to the next.
- Extends various flexibility options to school districts for an additional two years, including categorical flexibility, instructional materials purchase and adoption requirements, routine and deferred maintenance requirements, surplus property, class size reduction, instructional minutes and local budget reserve requirements.
- Makes statutory changes conforming to zero funding for the Emergency Repair Program in 2011-12.
- Appropriates \$80.8 million in one-time Proposition 98 funds to support mental health related services for special education students in 2010-11. Funds are appropriated on a one-time basis based upon the relative costs of services provided.
- Extends until 2014-15, authorization for new schools, the majority of which are charter schools, to access flexible categorical program funding on par with existing schools.
- Appropriates \$5 million from the General Fund to augment the Charter School Revolving Loan Fund, which makes low-interest, start-up loans to new charter schools in order to meet the purposes of their charters.
- Establishes a zero percent COLA for K-12 programs in 2010-11. Though the actual COLA of 1.67% is not provided, it is applied to the deficit factors established in this measure.
- Provides \$2.3 million in federal funds (\$1.5 million in Title VI and \$781,000 in Title II) for 2010-11 for the California Longitudinal Pupil Achievement Data System (CALPADS), requires first priority for the funds to support the transfer of knowledge from the CALPADS contractor to staff of the California Department of Education (CDE) and any other relevant state agency, and requires CDE, as a condition of receiving funds to administer CALPADS, to ensure LEAs are provided with the standardized templates and data necessary for meeting the requirements established in the School Accountability Report Card.
- Applies an 8.9 percent reduction to categorical programs for basic aid districts in 2010-11 and 2011-12 commensurate to the revenue limit reduction rate for other school districts in 2010-11 and 2011-12, and specifies the intent to restore these reductions at the same time, and in direct proportion to, restoration of revenue limit reductions affected by the ongoing prior year reductions to revenue limit funding.
- Authorizes a statutory appropriation for the K-3 Class Size Reduction program for 2011-12, and authorizes the Superintendent of Public Instruction to certify the funding needed for the program in 2011-12 to ensure full funding for the program. This action is consistent with action taken in the 2010-11 Budget Act.
- Reduces ongoing Proposition 98 funding for special education by about \$13.1 million in 2011-12 and backfill with one-time Proposition 98 savings from various programs to cover 2010-11 program adjustments.
- Suspends the statutory division of Proposition 98 funding among K-12 educational agencies, community colleges, and other state agencies, and instead conform the division of funding based upon actual budget appropriations in 2011-12.

- Requires the State to adjust the Proposition 98 calculation so that any shift in local property taxes previously received by redevelopment agencies has no effect on the Proposition 98 minimum guarantee in 2011-12.

Although SB70 was passed by both houses of the State legislature, SB70 has not yet been sent to the Governor for signature. The District cannot predict when SB70 will be sent to the Governor, nor what action the Governor may take if he receives the SB70. The District also cannot predict whether or when the Legislature or the Governor will act on the portion of the 2011-12 Proposed Budget focused on revenue, or what effect the outcome such action may have on the future of SB70 as enrolled, if any. It is not possible to predict what other actions will be taken in the current and future years by the State Legislature and the Governor to address California's significant financial problems.

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 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 lawsuit was decided against the CRA on May 1, 2010. Redevelopment agencies have sued the State over this diversion.

On May 20, 2010, a plaintiff class of numerous current California public school students and public school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association, filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Maya Robles-Wong, et al. v. State of California*, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance and to design, enact, fund and implement a system of public school finance that is intentionally, rationally and demonstrably aligned with the State's prescribed educational program and provides equal access and an equal educational opportunity to all school-aged children in the State. The District is not a party to the *Robles-Wong* litigation, and cannot predict the outcome or impact of the litigation.

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 base revenue limit per A.D.A. is budgeted to be \$6,351 for fiscal year 2010-11, compared to an amount of \$6,376 for 2009-10. The District's recent A.D.A. history for grades K through 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	41,840 ⁽¹⁾

⁽¹⁾ Budgeted.

Source: District Audited Financial Statements.

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 2010-11.

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 California Revenue and Taxation Code. Education Code Section 42238(h) itemizes the local revenues that are counted towards the base revenue limit before calculating how much the State must provide in equalization aid. 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 not a basic aid district. Local property tax revenues account for approximately 26% of the District's aggregate revenue limit income, and are budgeted to be approximately \$57 million, or 14% of total general fund revenue in fiscal year 2010-11. 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.

State funds for special (categorical) programs in fiscal year 2010-11 are budgeted at approximately \$109 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 budgeted at \$6.3 million, or about 1.5% of general fund revenue in fiscal year 2010-11.

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 2010-11 or beyond. Certain adjustments will have to be made throughout the year based on actual State funding and actual attendance.

Effect of Redevelopment Project Area. Under California law, a city or county can create a redevelopment agency in territory within one or more school districts. Upon formation of a "project area" of a redevelopment agency, all 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 tax revenues to other local taxing agencies, including school districts, from that time forward. Property taxes levied for repayment of local bonds approved after January 1, 1987, are not affected by redevelopment agency claims on local tax increment.

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.

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 2010-11 budget, the District estimates that it will expend approximately \$332 million in salaries and benefits, or approximately 80% of its general fund expenditures. This amount represents an increase of 2.8% from the \$323 million the District expended in fiscal year 2009-10.

Labor Relations. Approximately 4,700 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	2,580	June 30, 2012
Service Employees International Union	1,877	June 30, 2011
United Professional Educators	131	open
Teamsters	78	June 30, 2011
Classified Supervisors Association	22	June 30, 2011
Total	4,688	

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 \$14.0 million for fiscal year 2009-10 and is budgeted at \$14.2 million in fiscal year 2010-11.

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 2009-10, the contribution percentage was 9.709%. In the current budget year, the total contribution is budgeted at \$4.56 million, compared to a fiscal year 2009-10 General Fund expense of \$4.8 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, 2010," Note 6.

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 February 5, 2010, Bickmore Risk Management Services completed an evaluation of the District's obligations as of December 1, 2008.

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 the date of the report, the District had an actuarial accrued liability of approximately \$552 million for 3,118 current retirees and beneficiaries and 4,730 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 \$18.3 million for the year beginning December 1, 2008. 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, but has set aside \$1.0 million to start prefunding an unfunded actuarial liability of \$551 million. In addition, SCTA has agreed to contribute to 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 2008, the ARC was determined to be \$41.1 million. In 2009-10, the District funded \$15.8 million in pay-as-you-go expenditures. The District’s 2010-11 budgeted pay-as-you-go expenditures for post-retirement benefits is \$15.8 million.

Accrued Vacation. The long-term portion of accumulated and unpaid employee vacation for the District as of June 30, 2010, was \$8.1 million.

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 2006-07 through fiscal year 2010-11 (budgeted). See “SCHOOL DISTRICT BUDGET PROCEDURES AND REQUIREMENTS – District Budget Process and County Review” herein for a general description of the annual budget process for California school districts. The District’s audited financial statements for the year ending June 30, 2010, 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 2010-11, the District budgeted 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 STATEMENT OF INVESTMENT POLICY AND MONTHLY INVESTMENT REPORT.”

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**Sacramento City Unified School District
General Fund
Revenues, Expenditures and Fund Balances
Fiscal Year 2006-07 ⁽¹⁾ Through Fiscal Year 2010-11 ⁽²⁾**

	2006-07 Actual ⁽¹⁾	2007-08 Actual ⁽¹⁾	2008-09 Actual ⁽¹⁾	2009-10 Actual ⁽¹⁾	2010-11 Budget ⁽²⁾
Revenue/Receipts					
Revenue Limit Sources:					
State Aid	\$186,387,196	\$186,266,511	\$176,744,988	\$154,299,252	\$163,754,023
Property Taxes	65,871,643	61,870,624	63,408,608	60,544,496	57,208,424
Federal Revenue	46,638,028	47,833,768	61,239,195	57,663,445	78,419,786
Other State Revenue	98,284,330	105,751,979	93,574,884	113,183,976	108,536,052
Other Local Revenue	11,678,499	12,968,783	10,288,472	9,442,044	8,019,785
TOTAL	\$408,859,696	\$414,691,665	\$405,256,147	\$395,133,213	\$415,938,070
Expenditures/Disbursements					
Certificated Salaries	181,460,059	187,557,101	180,615,397	172,906,681	177,711,890
Classified Salaries	58,610,712	58,972,049	57,306,438	54,043,150	51,698,515
Employee Benefits	88,742,684	91,952,532	95,823,370	95,971,539	102,359,764
Books and Supplies	13,634,233	17,437,487	13,957,476	12,699,281	27,100,586
Services/Other Operating Expenditures	56,777,239	56,116,472	58,232,043	58,552,553	53,730,297
Capital Outlay	299,517	2,275,060	1,508,402	645,994	3,143,232
Other Outgo	6,169,791	42,935	27,720	18,318	(2,096,385)
Transfers of Indirect/Direct Support Costs	—	—	—	—	—
Debt Service	202,937	1,819,229	3,079,680	2,328,317	2,629,758
TOTAL	\$405,897,172	\$416,172,865	\$410,550,526	\$397,165,833	\$416,277,657
Excess (Deficiency) of Revenue Over (Under) Expenditures	2,962,524	(1,481,200)	(5,294,379)	(2,032,620)	339,587
Other Financing Sources/ (Uses)					
Transfers In/ Other Sources	5,042,638	4,017,169	7,340,438	4,848,912	10,761,355
Transfers Out/ Other Uses	(716,533)	(1,700,000)	—	(16,191,057)	(10,745,621)
Proceeds from capitalized lease obligations	—	—	—	47,411	—
TOTAL	\$4,326,105	\$2,317,169	\$7,340,438	\$(11,294,734)	\$15,734
Excess of Revenue/Other Sources Over (Under) Expenditures/Other Uses	7,288,629	835,969	2,046,059	(13,327,354)	(323,853)
FUND BALANCE, BEGINNING OF YEAR	27,517,288	34,805,917	35,641,886	37,687,945	24,360,592
FUND BALANCE, END OF YEAR	\$34,805,917	\$35,641,886	\$37,687,945	\$24,360,591	\$24,036,738

⁽¹⁾ Audited financial statements.

⁽²⁾ 2010-11 Second Interim Financial Report.

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 2010-11 and projected cash receipts and disbursements for fiscal year 2011-12. The projected fiscal year 2011-12 monthly receipts and disbursements take the receipt of Note proceeds and repayment of the Notes into consideration.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Exhibit I
Sacramento City Unified School District
2010-11 Cash Flow
General Fund

[To come from the District]

Exhibit II

**Sacramento City Unified School District
Projected 2011-12 Cash Flow
General Fund
(Including TRAN Proceeds)**

[To come from the District]

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

General Obligation Bonds. 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

Approximately \$_____ million of the District's general obligation bonds remain outstanding, upon which payments of \$_____ will come due in fiscal year 2010-2011.

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.

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.

Restricted Maintenance Reserve Account

As a condition to receiving State modernization or construction funds, the District has agreed 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. For fiscal years 2008-09 through 2012-13, the adopted 2009-10 State Budget has reduced the required reserve contribution from 3% to 1%. In 2010-11, the District has funded a maintenance reserve contribution of \$_____ million or _____% of the adopted budget general fund expenditures.

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.

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, from 2008-09 through 2012-13, the District is only required to fund the maintenance reserve to 1% of its total expenditures. However, for fiscal year 2009-10, the District has budgeted a maintenance reserve contribution of 2.8%, or approximately \$10.3 million.] [note: to be updated by the District]

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," Note 11

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.

Eleven charter high schools currently operate in the District's boundaries, four of which are dependent and seven 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 2010-11, the District expects to make in-lieu payments in an amount equal to approximately \$5.3 million.

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, 2010, the schedule of lease payments was as follows:

<u>Year Ending June 30</u>	<u>Capital Lease Payments</u>
2011	\$61,518
2012	9,482
2013	9,482
2014	9,482
Less: Interest Portion	(733)
Net Minimum Lease Payments	\$89,232

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 California "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 starting in 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.

Perry-Smith, LLP California, served as independent auditor to the District for fiscal year ended June 30, 2010, 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 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. The California 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 California 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 California 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 2009-10, the District had an appropriations limit of \$242.557 million and appropriations subject to the limit of \$190.069 million. For fiscal year 2010-11, the District's appropriations limit is budgeted at \$238.524 million.

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 2010-11 assessed value of approximately \$26 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.

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. California 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 2010-11**

<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)

Source: California Municipal Statistics, Inc.

* Figures do not include redevelopment increment.

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 California, 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 California and in the County have resulted in reductions in assessed values and increased assessment appeals activity. As of March 1, 2011, the 100 largest pending appeals in the County have a combined assessor's value of \$3,171,225,032, compared to a combined claimed applicant value of \$1,223,273,652, which is a difference of \$1,947,951,380.

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.

Taxation of State-Assessed Utility Property

A portion of property tax revenue of the District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed collectively as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Ongoing changes in the structure of California electric utility industry and in the way in which components of the industry are owned and regulated, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and allocating tax revenues to local taxing agencies, 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). TRA-3-005 comprises approximately 25% 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>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11*</u>
General	\$1.0000	\$1.0000	\$1.0000	\$1.0000	\$1.0000
Los Rios Community College District	.0072	.0066	.0074	.0124	.0090
Sacramento Unified School District	.0850	.0890	.0938	.0911	.0979
Total	\$1.0922	\$1.0956	\$1.1012	\$1.1035	\$1.1069

Source: California Municipal Statistics, Inc.

* Total 2010-11 Assessed Valuation is \$7,114,238,585.

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 California 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 2005-06 Through Fiscal Year 2009-10				
Fiscal Year	Secured Tax Charge	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

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
2010-11 Taxable Assessed Valuation and Parcels by Land Use ⁽¹⁾**

	<u>2010-11 Assessed Valuation ⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Commercial	\$5,791,528,794	23.17%	3,545	3.49%
Industrial	1,441,270,422	5.77	1,269	1.25
Government/Social/Institutional	188,385,360	0.75	320	0.31
Vacant Commercial	144,362,251	0.58	515	0.51
Recreational	61,826,464	0.25	75	0.07
Vacant Industrial	44,456,061	0.18	291	0.29
Agricultural	10,585,974	0.04	20	0.02
Miscellaneous	<u>2,052,947</u>	<u>0.01</u>	<u>179</u>	<u>0.18</u>
Subtotal Non-Residential	\$7,684,468,273	30.74%	6,214	6.11%
Residential:				
Single Family Residence	\$13,193,615,903	52.78%	82,880	81.56%
5+ Residential Units/Apartments	1,702,338,873	6.81	1,436	1.41
2-4 Residential Units	1,383,114,132	5.53	6,398	6.30
Hotel/Motel	446,211,202	1.78	54	0.05
Condominium/Townhouse	252,885,386	1.01	1,777	1.75
Vacant Residential	169,722,916	0.68	1,239	1.22
Miscellaneous Residential	87,341,131	0.35	332	0.33
Mobile Home Park	39,783,468	0.16	34	0.03
Mobile Home	<u>39,134,294</u>	<u>0.16</u>	<u>1,255</u>	<u>1.24</u>
Subtotal Residential	\$17,314,147,305	69.26%	95,405	93.89%
Total	\$24,998,615,578	100.00%	101,619	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 2010-11 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 2010-11, no single taxpayer owned more than 0.93% of the total taxable property in the District.

Sacramento City Unified School District Major Taxpayers 2010-11

	Property Owner	Primary Land Use	2008-09 Assessed Valuation	% of Total ⁽¹⁾
1.	Hines Sacramento Wells Fargo Center	Office Building	\$232,497,271	0.93%
2.	CIM & 980 9 th Street Sacramento LP	Office Building	152,663,518	0.61
3.	Campbell Soup Supply Co. LLC	Industrial	135,668,998	0.54
4.	CIM & J Street Hotel Sacramento LP	Hotel	128,503,655	0.51
5.	Downtown Plaza LLC	Shopping Center	128,296,257	0.51
6.	300 Capitol Associates NF LP	Office Building	114,727,450	0.46
7.	621 Capitol Mall LLC	Office Building	112,969,271	0.45
8.	Hines VAF II Sacramento Properties LP	Office Building	96,670,078	0.39
9.	Sacramento Equities REIT	Office Building	81,805,660	0.33
10.	M&H Realty Partners VI LP	Undeveloped	79,810,591	0.32
11.	McClatchy Newspapers	Newspaper	78,582,703	0.31
12.	Procter & Gamble Manufacturing Co.	Industrial	77,685,617	0.31
13.	500 Capitol Mall LLC	Office Building	75,478,167	0.30
14.	1415 Meridian Plaza LLC	Office Building	73,098,160	0.29
15.	Capitol Regency LLC	Hotel	71,337,828	0.29
16.	Hines REIT 1515 S. Street LP	Office Building	70,403,058	0.28
17.	Buzz Oates LLC	Office Building	69,742,976	0.28
18.	AREF Sacramento LP	Office Building	67,859,037	0.27
19.	1325 J Street LLC	Office Building	64,845,950	0.26
20.	GPT Properties Trust	Office Building	<u>62,232,715</u>	<u>0.25</u>
			\$1,974,878,960	7.90%

⁽¹⁾ 2010-11 Local Secured Assessed Valuation: \$24,998,615,578

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 2010-11 fiscal year. To the extent that any rebate cannot be paid from such moneys, California 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.

Certain requirements and procedures contained or referred to in the Resolution, the Tax Certificate of the District dated the date of delivery of the Notes, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Note or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

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.

Future legislative proposals, if enacted into law, or 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 Noteholders from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Notes. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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.] [to be confirmed by the District]

MISCELLANEOUS

Rating

Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's") has assigned its municipal note rating of "____" to the Notes. The rating issued reflects only the views of Standard & Poor's and any explanation of the significance of such rating should be obtained from Standard & Poor's at www.standardandpoors.com.

Generally, a rating agency bases its rating on the information and materials furnished to it, and on investigations, studies, and assumptions of its own. The District has provided certain information to Standard & Poor's, some of which is not included in this Official Statement. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or upward, 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 Notes.

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 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 competitive sale held on _____, 2011, _____, as the original purchaser (the "Underwriter"), 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 ("spread") 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

[TO COME FROM BOND COUNSEL]

APPENDIX B

**FINANCIAL STATEMENTS OF THE DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2010**

[TO COME FROM DISTRICT AND TO BE INSERTED AT THE TIME OF PRINTING]

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[TO COME FROM BOND COUNSEL]

APPENDIX D

**COUNTY OF SACRAMENTO
INVESTMENT POLICIES AND PRACTICES – 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 2010

*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 the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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

9. 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.