

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel, subject, however to certain qualifications described herein, under existing law, the Series C Bonds constitute "qualified school construction bonds" within the meaning of Section 54F of the Internal Revenue Code of 1986 and are eligible for the credit payable by the federal government under Section 6431(f)(2) of the Tax Code. Interest on the Series C Bonds is not intended to be excluded from gross income for federal income tax purposes. In the opinion of Special Tax Counsel, the interest on the Series D Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Series D Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986, as amended. In the further opinion of Special Tax Counsel, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS."*

\$ \_\_\_\_\_\*

**MT. DIABLO UNIFIED SCHOOL DISTRICT**  
(Contra Costa County, California)

\$3,860,000\*

**GENERAL OBLIGATION BONDS  
2010 ELECTION, 2011 SERIES C  
(FEDERALLY TAXABLE QUALIFIED SCHOOL  
CONSTRUCTION BONDS - DIRECT PAYMENT)**

and

\$ \_\_\_\_\_\*

**GENERAL OBLIGATION BONDS  
2010 ELECTION, 2011 SERIES D  
(Bank Qualified)**

Dated: Date of Delivery

Due: August 1, as shown on inside cover.

The General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds – Direct Payment) (the "Series C Bonds") and General Obligation Bonds, 2010 Election, 2011 Series D (the "Series D Bonds" and, together with the Series C Bonds, the "Bonds") are issued under and pursuant to a bond authorization (the "Authorization") for the issuance and sale of not more than \$348,000,000 of general obligation bonds approved by more than 55% of the qualified voters of the District voting on the proposition at a general election held on June 8, 2010. The Bonds are being issued to (i) finance the construction, acquisition, furnishing and equipping of District facilities, (ii) to fund a portion of the capitalized interest on the Bonds through \_\_\_\_\_, 2011 and (iii) to pay certain costs of issuance associated therewith, as more fully described herein under the caption "THE PROJECTS." The Bonds are the third and fourth series, respectively, of bonds issued under the Authorization and are issued on a parity with all other general obligation bonds of the District.

The Bonds will be issued as current interest bonds (the "Current Interest Bonds"), capital appreciation bonds (the "Capital Appreciation Bonds") and convertible capital appreciation bonds (the "Convertible CABs. The Series C Bonds will be issued as Current Interest Bonds designated as Qualified School Construction Bonds under the provisions of the American Recovery and Reinvestment Act of 2009, with a direct payment to be paid to the District by the United States Department of the Treasury. The Series D Bonds will be issued as Capital Appreciation Bonds and Convertible CABs. Interest on the Current Interest Bonds is payable on February 1 and August 1 of each year, commencing February 1, 2012. The Capital Appreciation Bonds and the Convertible CABs, initially, accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2011. See "THE BONDS" herein. From and after their Conversion Date (as specified on the inside cover), the Convertible CABs will become Current Interest Bonds.

The Bonds will be issued in book-entry form only, in denominations of \$5,000 principal amount, Maturity Value or Conversion Value or integral multiples thereof. The Bonds will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). Purchasers will not receive certificates representing their interests in the Bonds. Payments on the Bonds will be made by Wells Fargo Bank National Association, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS – Book-Entry Only System."

**The Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein.** See "THE BONDS – "Redemption" herein.

The Bonds are general obligations of the District only and are not obligations of the County of Contra Costa (the "County"), the State of California or any of its other political subdivisions. The Board of Supervisors of the County has the power and is obligated to levy and collect *ad valorem* property taxes for each fiscal year upon the taxable property of the District in an amount at least sufficient, together with other moneys available for such purpose, to pay the principal or Maturity Value or Conversion Value of, and premium, if any, and interest on each Bond as the same becomes due and payable.

The District has applied for a policy of municipal bond insurance which, if purchased, will guarantee the payment of the principal or Maturity Value of and interest on any insured Bonds when due, under an insurance policy to be issued concurrently with the Bonds.

**MATURITY SCHEDULE**  
On Inside Cover

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.**

*The Bonds will be offered when, as and if issued and received by the Underwriter subject to the approval of legality by Matt Juhl Darlington & Associates, Chico, California, Bond Counsel, and certain other conditions. Matt Juhl Darlington & Associates, Chico, California, is acting as Disclosure Counsel for the issue. Jones Hall, A Professional Law Corporation, San Francisco, California is acting as Special Tax Counsel to the District with respect to issuance of the Bonds. It is anticipated that the Bonds will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about \_\_\_\_\_, 2011.*

**STONE & YOUNGBERG**

\* Preliminary; subject to change.

The Date of this Official Statement is: \_\_\_\_\_, 2011

**MATURITY SCHEDULE**

\$ \_\_\_\_\_  
**MT. DIABLO UNIFIED SCHOOL DISTRICT  
 GENERAL OBLIGATION BONDS  
 2010 ELECTION, 2011 SERIES C  
 (FEDERALLY TAXABLE QUALIFIED SCHOOL CONSTRUCTION BONDS – DIRECT  
 PAYMENT)**

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP<sup>1</sup> (621196)</u>
	\$	%	%	

\$ \_\_\_\_\_ % Term Bonds due August 1, 20\_\_ – Priced to Yield: \_\_\_\_\_ % CUSIP: 621196 \_\_\_\_\_

\$ \_\_\_\_\_  
**MT. DIABLO UNIFIED SCHOOL DISTRICT  
 GENERAL OBLIGATION BONDS  
 2010 ELECTION, 2011 SERIES D  
 (BANK QUALIFIED)**

\$ \_\_\_\_\_ Capital Appreciation Bonds

<u>Maturity Date (August 1)</u>	<u>Initial Principal Amount</u>	<u>Accretion Rate</u>	<u>Yield to Maturity</u>	<u>Maturity Value</u>	<u>CUSIP<sup>1</sup> (621196)</u>
	\$	%	%	\$	

\$ \_\_\_\_\_ Convertible Capital Appreciation Bonds

<u>Maturity Date (August 1)</u>	<u>Initial Principal Amount</u>	<u>Accretion Rate</u>	<u>Yield</u>	<u>Conversion Value</u>	<u>Conversion Date (August 1)</u>	<u>Interest Rate after Conversion</u>	<u>CUSIP<sup>1</sup> (621196)</u>
	\$	%	%	\$		%	

<sup>1</sup> Copyright 2011, American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference only. Neither the District nor the Underwriter take any responsibility for the accuracy of such CUSIP number.

No dealer, broker, salesperson or other person has been authorized by the Mt. Diablo Unified School District (the "District") to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell, the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. Although certain information set forth in this Official Statement has been provided by the County of Contra Costa, the County of Contra Costa has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement except for the information set forth under the caption "THE CONTRA COSTA COUNTY TREASURY POOL."

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, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information."

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS 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 BONDS TO CERTAIN SECURITIES DEALERS, INSTITUTIONAL INVESTORS, BANKS OR OTHERS AT PRICES LOWER OR HIGHER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.**

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

**MT. DIABLO UNIFIED SCHOOL DISTRICT**  
**Contra Costa County, State of California**

**Board of Education**

Gary Eberhart, *President*  
Sherry Whitmarsh *Vice-President*  
Lynne Dennler, *Member*  
Cheryl Hansen, *Member*  
Linda Mayo, *Member*

**District Administrators**

Steven Lawrence, Ph.D., *Superintendent*  
Rose Lock, *Assistant Superintendent of Student Achievement and School Support*  
Mildred Browne, Ed.D., *Assistant Superintendent, Special Education and Student Services*  
Julie Braun-Martin, *Assistant Superintendent, Personnel Services*  
Bryan Richards, *Chief Financial Officer*  
Gregory J. Rolen, *General Counsel*

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Matt Juhl Darlington & Associates  
*Chico, California*

**Special Tax Counsel**

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

**Financial Advisor**

Isom Advisors, a Division of Urban Futures Incorporated  
*Walnut Creek, California*

**Paying Agent, Transfer Agent and Registration Agent**

Wells Fargo Bank National Association  
*San Francisco, California*

## Table of Contents

	Page
INTRODUCTION .....	1
Purpose of Issue .....	1
Registration .....	1
The District .....	1
Sources of Payment for the Bonds .....	2
Authority for Issuance .....	2
Redemption .....	2
Continuing Disclosure .....	2
Designation of Bonds as Qualified School Construction Bonds .....	2
Closing Date .....	3
THE BONDS .....	3
Authority for Issuance and Security for the Bonds .....	3
Purpose of Issue .....	3
Description of the Bonds .....	3
Qualified School Construction Bonds .....	4
Certain Risk Factors relating to Qualified School Construction Bonds .....	5
Estimated Sources and Uses of Funds .....	6
Redemption .....	6
Notice of Redemption .....	9
Selection of Bonds for Redemption .....	10
Effect of Notice of Redemption .....	10
Transfer and Exchange .....	10
Debt Service Schedules .....	10
Defeasance .....	12
Book-Entry Only System .....	13
Continuing Disclosure Agreement .....	13
SECURITY FOR THE BONDS .....	13
General .....	13
THE PROJECTS .....	13
Project List .....	14
Qualified School Construction Bond Qualified Purpose .....	17
Projects to be Financed with the Proceeds of the Bonds .....	17
TAX BASE FOR REPAYMENT OF THE BONDS .....	17
Assessed Valuations .....	17
Tax Rates .....	21
The Teeter Plan .....	22
Secured Tax Charges and Delinquencies .....	22
Direct and Overlapping Debt .....	23
DISTRICT FINANCIAL INFORMATION .....	25
District Investments .....	25
Financial Statements of the District .....	25
Revenues .....	26
General Fund .....	27
Retirement System .....	29
Post-Employment Benefits .....	29
Certain Existing Obligations .....	30

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
MT. DIABLO UNIFIED SCHOOL DISTRICT.....	31
District Organization.....	31
Key Personnel.....	32
District Employees.....	32
Insurance.....	33
District Growth.....	33
Developer Fees.....	34
State Funding of Education.....	34
State Budget.....	35
Litigation Challenging State Funding of Education.....	44
Significant Accounting Policies and Audited Financial Statements.....	44
<i>Ad Valorem</i> Property Taxes.....	45
Proposition 26.....	46
Proposition 98.....	46
Supplemental Information Concerning Litigation Against the State of California.....	47
The Class Size Reduction Kindergarten-University Public Education Facilities Bond Acts of 2002 and 2004.....	48
Proposition 1A.....	49
Financial Statements.....	49
Budgets of District.....	50
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.....	50
Article XIII A of the California Constitution.....	50
Legislation Implementing Article XIII A.....	50
Article XIII B of the California Constitution.....	51
Unitary Property.....	51
California Lottery.....	51
Proposition 46.....	52
Proposition 39.....	52
Article XIII C and XIII D of the California Constitution.....	52
Future Initiatives.....	53
THE CONTRA COSTA COUNTY TREASURY POOL.....	54
CONTINUING DISCLOSURE.....	56
LEGAL MATTERS.....	56
TAX MATTERS.....	56
Series C Bonds.....	56
Series D Bonds.....	57
LEGALITY FOR INVESTMENT.....	59
RATING.....	59
UNDERWRITING.....	59
NO LITIGATION.....	59
OTHER INFORMATION.....	60

**TABLE OF CONTENTS**  
**(continued)**

	<b>Page</b>
APPENDIX A-1 – FORM OF BOND COUNSEL OPINION .....	A-1-1
APPENDIX A-2 – FORM OF SERIES C SPECIAL TAX COUNSEL OPINION .....	A-2-1
APPENDIX A-3 – FORM OF SERIES D SPECIAL TAX COUNSEL OPINION .....	A--1
APPENDIX B – SELECTED INFORMATION REGARDING THE COUNTY OF CONTRA COSTA .....	B-1
APPENDIX C – MT. DIABLO UNIFIED SCHOOL DISTRICT AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2010.....	C-1
APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.....	D-1
APPENDIX E – BOOK-ENTRY ONLY SYSTEM .....	E-1
APPENDIX F – TABLE OF ACCRETED VALUES .....	F-1



\$ \_\_\_\_\_<sup>\*</sup>  
**MT. DIABLO UNIFIED SCHOOL DISTRICT**  
**(Contra Costa County, California)**

<b>\$3,860,000<sup>*</sup></b>	<b>and</b>	\$ _____ <sup>*</sup>
<b>GENERAL OBLIGATION BONDS</b>		<b>GENERAL OBLIGATION BONDS</b>
<b>2010 ELECTION, 2011 SERIES C</b>		<b>2010 ELECTION, 2011 SERIES D</b>
<b>(FEDERALLY TAXABLE QUALIFIED SCHOOL</b>		<b>(Bank Qualified)</b>
<b>CONSTRUCTION BONDS - DIRECT PAYMENT)</b>		

**INTRODUCTION**

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

The Mt. Diablo Unified School District (the “District”) proposes to issue \$3,860,000<sup>\*</sup> aggregate principal amount of its General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds - Direct Payment) (the “Series C Bonds”) and \$ \_\_\_\_\_<sup>\*</sup> aggregate principal amount of its General Obligation Bonds, 2010 Election, 2011 Series D (the “Series D Bonds”) and, together with the Series C Bonds, (the “Bonds”), under and pursuant to a bond authorization (the “Authorization”) for the issuance and sale of not more than \$348,000,000 of general obligation bonds approved by more than 55% of the qualified voters of the District voting on the proposition at a general election held on June 8, 2010 (the “Election”). On September 30, 2010, the District issued its General Obligation Bonds, 2010 Election 2010 Series A and General Obligation Bonds, 2010 Election, 2010 Series B (Federally Taxable New Clean Renewable Energy Bonds – Direct Payment) in the aggregate principal amount of \$109,996,475 (collectively, the “Series 2010 Bonds”). The Bonds are the third and fourth series of bonds issued under the Authorization. The Bonds are issued on a parity with all general obligation bonds of the District, including the Series 2010 Bonds and future general obligation bonds issued under the Authorization.

**Purpose of Issue**

Proceeds from the sale of the Bonds will be used for the acquisition, construction, furnishing and equipping of District facilities and to pay costs of issuance of the Bonds. See “THE PROJECTS” herein.

**Registration**

Wells Fargo Bank National Association will act as the initial registrar, transfer agent, authentication agent and paying agent for the Bonds (the “Paying Agent”). As long as The Depository Trust Company, New York, New York (“DTC”) is the registered Owner of the Bonds and DTC’s book entry-method is used for the Bonds, the Paying Agent will send any notice of redemption or other notices to Owners only to DTC. See “THE BONDS – Description of the Bonds” herein.

**The District**

The District, a unified school district of the State of California (the “State”), was established on July 1, 1949, and is located in the northwestern portion of Contra Costa County (the “County”). The

<sup>\*</sup> Preliminary; subject to change.

District covers approximately 150 square miles including the cities of Concord, Pleasant Hill and Clayton, portions of the cities of Walnut Creek, Pittsburg and Martinez, and unincorporated areas of the County, including Pacheco and Bay Point and is located approximately 30 miles northeast of San Francisco. The District provides kindergarten through twelfth grade education services in thirty-one elementary schools, ten middle schools, six high schools and twenty alternative schools and programs, and provides adult education in two adult education centers. The District's estimated average daily attendance for fiscal year 2010-11 is [32,343.60] students, and the District has a 2010-11 assessed valuation of \$29,906,094,881. The District's audited financial statements for the fiscal year ended June 30, 2010 are attached hereto as APPENDIX C. For further information concerning the District, see the caption "MT. DIABLO UNIFIED SCHOOL DISTRICT" herein.

### **Sources of Payment for the Bonds**

The Bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of the County is empowered and obligated to annually levy *ad valorem* property taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except certain personal property which is taxable at limited rates), for the payment of principal and Maturity Value of, and interest on, the Bonds when due. See "SECURITY FOR THE BONDS" and "MT. DIABLO UNIFIED SCHOOL DISTRICT" herein

### **Authority for Issuance**

The Bonds are general obligations of the District. The Bonds are being issued by the District under certain provisions of the Government Code of the State and pursuant to a resolution adopted by the Board of Education of the District. See "THE BONDS - Authority for Issuance and Security for the Bonds" herein.

### **Redemption**

The Bonds are subject to optional, mandatory and extraordinary redemption as described herein. See "THE BONDS – Redemption" herein.

### **Continuing Disclosure**

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed by the District in connection with the Bonds. See "THE BONDS – Continuing Disclosure Agreement," "CONTINUING DISCLOSURE" and "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

### **Designation of Bonds as Qualified School Construction Bonds**

The District has received from the California Department of Education an allocation pursuant to section 54F(d) of the Code of a portion of the national limitation on the amount of bonds designated as qualified school construction bonds in an amount of \$3,860,000. The District has designated the Series C Bonds as "qualified school construction bonds" and as "specified tax credit bonds" under the Code, making the District eligible for payments of direct subsidy payments from the federal government. See "THE BONDS –Qualified School Construction Bonds."

## **Closing Date**

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2011.

## **THE BONDS**

### **Authority for Issuance and Security for the Bonds**

The Bonds are general obligations of the District. The Bonds are being issued by the District under the provisions of Title 1, Division 1, Part 10, Chapter 1.5 of the Government Code of the State of California (the "Government Code") (commencing with Section 53506) and pursuant to a resolution of the Board of Education of the District adopted on \_\_\_\_\_, 2011 (the "Resolution").

The Bonds are being issued pursuant to provisions of the State Constitution affected by Proposition 39, the Constitutional initiative passed by voters on November 7, 2000, and were therefore approved by a 55% vote of the electorate voting on the proposition at the election conducted within the District on June 8, 2010. See the caption "Proposition 39" under the heading "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

The Bonds are issued under and pursuant to a bond authorization for the issuance and sale of not more than \$348,000,000 of general obligation bonds approved by more than 55% of the qualified voters of the District voting on the proposition at a general election held on June 8, 2010.

On September 30, 2010, the District issued its General Obligation Bonds, 2010 Election, 2010 Series A and General Obligation Bonds, 2010 Election, 2010 Series B (Federally Taxable New Clean Renewable Energy Bonds – Direct Payment) in the aggregate principal amount of \$109,996,475. Subsequent to the issuance of the Bonds, \$ \_\_\_\_\_\* aggregate principal amount of general obligations bonds will remain for issuance under the Authorization.

### **Purpose of Issue**

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond proposition submitted at the Election, which includes improving science, career and technical education facilities; upgrading classroom instructional technology; repairing leaky roofs; improving safety; maximizing energy efficiency including adding solar panels and modern air conditioning; and repairing, replacing, equipping or modernizing other school facilities. For a more detailed description of the intended uses of the proceeds of the Bonds, see the caption "THE PROJECTS" below.

### **Description of the Bonds**

The Bonds will be dated their date of delivery and will be issued only as fully registered bonds in denominations of \$5,000 principal amount or integral multiples thereof. The Series C Bonds will be issued as Qualified School Construction Bonds under the provisions of the ARRA, with a direct payment to be paid to the District by the U.S. Treasury, in an amount equal to the lesser of (i) the amount of interest payable with respect to the Series C Bonds on each February 1 and August 1 (each, an "Interest Payment Date") in each of the years set forth on the inside cover page of this Official Statement or (ii) 100% of the amount of interest which would have been payable on the Series C Bonds on such date if such interest were determined at the applicable credit rate determined under Section 54F of the Code.

The principal of the Current Interest Bonds is payable on the maturity dates of the respective Bonds or the earlier redemption of such Current Interest Bonds. Interest on the Current Interest Bonds is payable on each Interest Payment Date in each of the years, commencing February 1, 2012, and in the principal amounts, set forth on the inside cover page of this Official Statement.

The Capital Appreciation Bonds are payable only at maturity and will not bear interest on a current basis. The Maturity Value of each Capital Appreciation Bond is equal to its accreted value upon the maturity thereof, being comprised of its initial purchase price (the "Initial Principal Amount") and the accreted interest between the delivery date and its respective maturity date. The Capital Appreciation Bonds accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2011, through their maturity dates as set forth on the inside cover page of this Official Statement.

The Convertible CABs do not bear interest on a current basis from their date of issuance through their Conversion Date; from and after their Conversion Date, the Convertible CABs will become Current Interest Bonds and will bear interest on the basis of their Conversion Value at the interest rates stated on the inside cover page hereof. The Conversion Value of each Convertible CAB is equal to its accreted value upon the Conversion Date thereof, being comprised of its initial Principal Amount and the accreted interest between the delivery date and its Conversion Date. The Convertible CABs accrete interest from their date of delivery, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2011, until their Conversion Dates as set forth on the inside cover page of this Official Statement at which time the Convertible CABs become Current Interest Bonds and interest is payable on each Interest Payment Date, commencing February 1, 20\_\_ until maturity, at the rates as set forth on the inside cover page of this Official Statement.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Owners or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, principal amount of and interest or premium, if any, on the Bonds are payable by wire transfer or New York Clearing House or equivalent next-day funds or by wire transfer of same day funds by Wells Fargo Bank National Association, as paying agent (the "Paying Agent"), to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to the DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM" herein.

### **Qualified School Construction Bonds**

The Series C Bonds are further authorized by and issued as "qualified school construction bonds" under Section 54F of the Code. An issuer of qualified school construction bonds must receive an allocation of the national qualified school construction bond limitation for the calendar year. The total amount of qualified school construction bonds authorized nationally in calendar year 2010 was limited by the Code to \$11 billion, and the California Legislature, with the passage of Assembly Bill 2560 ("A.B. 2560"), authorized the California Department of Education (the "CDE") to assign and distribute the States' federal tax credit volume cap for qualified school construction bonds to or for the benefit of school districts and county offices of education in the State in accordance with certain criteria set forth therein. The CDE has allocated a portion of such limit to the District (the "Allocation") in the amount of \$3,860,000. In accordance with A.B. 2560, the District must issue its qualified school construction bonds by July 14, 2011. The District has designated the Series C Bonds as qualified school construction bonds under the Code.

Pursuant to the portions of the Recovery Act adopted in 2010, the District has made an irrevocable election pursuant to section 6431(f)(3)(B) of the Tax Code to receive a direct subsidy (the “Direct Subsidy”) from the federal government for each payment of interest due on the Series C Bonds. The District has covenanted to deposit the Direct Subsidy into the Series C Debt Service Account. Upon the occurrence of an Extraordinary Event, as defined below, the District would no longer be entitled to receive the Direct Subsidy and would thereafter be required to make the payments of interest on the Series C Bonds solely from *ad valorem* property taxes.

**Certain Risk Factors relating to Qualified School Construction Bonds.**

In the event the District fails to expend all of certain proceeds of the Series C Bonds for a qualified purpose with respect to the project within the period ending three years after the date of issue of the Series C Bonds or such later date if extended by the IRS, the District is required to use said unexpended proceeds to redeem all or a portion of the Series C Bonds all in accordance with the requirements of Section 54A(d)(2)(B) of the Code in the time and manner prescribed by the Code. See “THE BONDS – Redemption – Series C Bonds” below.

The District has covenanted to deposit the subsidy payments it is entitled to receive with respect to the Series C Bonds in the Series C Debt Service Account, and the District’s right to receive the subsidy payments reduces the effective interest rate with respect to the Series C Bonds. However, the failure to receive the subsidy payments from the Treasury will not impact the District’s obligation to pay debt service on the Series C Bonds.

The District must comply with certain requirements of the Code in order for the Series C Bonds to continue to be eligible for subsidy payments from the United States Treasury under the Recovery Act. The District has covenanted to comply with each of these requirements. However, failure by the District to comply with these requirements may result in a delay or forfeiture of all or a portion of the subsidy payments and may cause the Series C Bonds to cease to be eligible for the subsidy payments, either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Series C Bonds. Should such an event occur, the Series C Bonds are not subject to extraordinary prepayment and will remain outstanding until maturity or until prepaid under one of the other prepayment provisions contained in the Resolution.

In addition, the District can provide no assurance that future legislation or clarifications or amendments to the Code, if enacted into law, or future court decisions will not reduce or eliminate the subsidy payments with respect to the Series C Bonds. The subsidy payments do not constitute a full faith and credit guarantee of the United States government, but are required to be paid by the Treasury under the Recovery Act. In such event, the Series C Bonds would be subject to prepayment prior to their maturity. See “THE BONDS – Redemption – Series C Bonds” below.

Finally, the IRS has indicated that it will withhold subsidy payments that issuers of tax subsidy bonds are otherwise entitled to receive in order to pay outstanding debts owed by the issuer to the federal government. According to the IRS, approximately 1% of all Build America Bond subsidy payments were affected by offsets in 2009. The District does not believe it owes the federal government any money as of the date of this Official Statement that would be subject to offset by the IRS.

**Estimated Sources and Uses of Funds**

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

	<u>Series C Bonds</u>	<u>Series D Bonds</u>	<u>Total</u>
<i>Sources of Funds</i>			
Principal or Issue Amount of Bonds			
Net Original Issue Premium			
Total Sources			
<i>Uses of Funds</i>			
Deposit to Debt Service Fund			
Deposit to Building Fund			
Costs of Issuance <sup>(1)</sup>			
Total Uses			

<sup>(1)</sup> Payment of Underwriter’s discount, printing fees, Bond and Disclosure Counsel fees, Special Tax Counsel fees, financial advisory fees, rating agency fees, bond insurance premium, if any, and other costs of issuance.

**Redemption**

**Series C Bonds**

*Optional Redemption.* The Series C Bonds are not subject to optional redemption prior to their fixed maturity dates.

*Mandatory Sinking Fund Redemption.* The Series C Bonds maturing on August 1, 20\_\_, are subject to mandatory sinking fund redemption, in part, on August 1 of each year from moneys in the Debt Service Fund established under the Resolution and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

<b>Mandatory Sinking Fund Payment Date (August 1)</b>	<b>Mandatory Sinking Fund Payment</b>
20__	\$
20__	
20__	
20__ <sup>(1)</sup>	

<sup>(1)</sup> Maturity.

*Extraordinary Optional Redemption of the Bonds.* The Series C Bonds shall also be subject to extraordinary optional redemption at the option of the District upon the occurrence of an Extraordinary Event (as defined below), in whole or in part, on any date at a redemption price equal to the greater of:

(i) the principal amount of the Series C Bonds to be redeemed, plus interest accrued to the redemption date, and

(ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Series C Bonds are to be redeemed, discounted to the date on which such Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below), plus one hundred basis points, plus interest accrued to the redemption date. Such redemption may be made from the moneys deposited therefor in the Debt Service Fund of the District established under the Resolution for payment of principal of and interest on the Series C Bonds when due.

The redemption price will be determined by an independent accounting firm, investment banking firm, or financial advisor retained by the District at the District's expense to make such calculation. The Paying Agent and the District may conclusively rely on such determination and will not be liable for such reliance.

"Extraordinary Event" means (i) a determination by the District that any material amendment or modification has occurred to Section 54F or Section 6431 of the Internal Revenue Code, or guidance has been published by the U.S. Treasury or the IRS interpreting those sections, or any other determination has been made by said federal agencies or by a court of competent jurisdiction, pursuant to which payments from the U.S. Treasury with respect to the Series C Bonds are reduced or eliminated, other than as the result of an act or omission by the District to satisfy the requirements under said Act to qualify for or receive payments or (ii) a determination by the U.S. Treasury, the IRS or a court of competent jurisdiction that the Series C Bonds are not Qualified School Construction Bonds within the meaning of Section 54F of the Code.

*Extraordinary Mandatory Redemption of the Series C Bonds.* The Series C Bonds shall also be subject to mandatory redemption by the District from, and to the extent of, any unexpended proceeds of the Series C Bonds (i) if the District spends any portion of the available project proceeds of the Series C Bonds for any purpose other than a Qualified Purpose, or (ii) to the extent that less than 100 percent of the available project proceeds of the Series C Bonds are expended within the 3-year period beginning on the date of issuance of the Series C Bonds, including any extensions thereof under section 54A(d)(2)(B)(iii) of the Code, for a Qualified Purpose. The mandatory redemption under section (i) of the preceding sentence shall occur within 90 days following the date on which an action is taken that causes the Series C Bonds not to be used for the Qualified Purpose for which the Series C Bonds were issued. The mandatory redemption under section (ii) of the second preceding sentence shall occur within 90 days following the earlier of the date on which the District reasonably determines that the financed facility will not be completed or the date on which the financed facility is placed in service.

"Qualified Purpose" means, with respect to any Extraordinary Mandatory Redemption, a purpose described in Section 54F(a)(1) of the Code.

In the event of a mandatory redemption, then the redemption price shall be the greater of:

(i) the principal amount of the Series C Bonds to be redeemed, plus interest accrued to the redemption date, and

(ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series C Bonds to be redeemed, not including any portion

of those payments of interest accrued and unpaid as of the date on which such Series C Bonds are to be redeemed, discounted to the date on which such Series C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the U.S. Treasury Rate (as defined below), plus one hundred basis points, plus interest accrued to the redemption date. Such redemption may be made from the moneys deposited therefor in the Debt Service Fund of the District established under the Resolution for payment of principal of and interest on the Series C Bonds when due.

The redemption price will be determined by an independent accounting firm, investment banking firm, or financial advisor retained by the District at the District’s expense to make such calculation. The Paying Agent and the District may conclusively rely on such determination and will not be liable for such reliance.

“Treasury Rate” with respect to any Extraordinary Redemption, means, as of any redemption date of any Series C Bonds, the yield to maturity as of the redemption date of U.S. Treasury securities with a constant maturity, excluding inflation-indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date or, if such Statistical Release is no longer published, any publicly available source of similar market data), most nearly equal to the period from the redemption date to the maturity date of the Series C Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the Treasury Rate means the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year.

**Series D Bonds - Current Interest Bonds**

*Optional Redemption.* The Series D Bonds issued as Current Interest Bonds and maturing on or before August 1, 20\_\_ are not subject to redemption prior to their fixed maturity dates. The Series D Bonds issued as Current Interest Bonds and maturing on and after August 1, 20\_\_ are subject to redemption prior to their stated maturity dates, at the option of the District, from any source of available funds, on any date on or after August 1, 20\_\_, as a whole or in part, at a redemption price equal to the principal amount of the Series D Bonds called for redemption, with interest accrued thereon to the date of redemption, without premium.

*Mandatory Sinking Fund Redemption.* The Series D Bonds issued as Current Interest Bonds and maturing on August 1, 20\_\_, are also subject to mandatory sinking fund redemption, in part, on August 1 of each year from moneys in the Debt Service Fund established under the Resolution (the “Debt Service Fund”) and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium.

<b>Mandatory Sinking Fund Payment Date (August 1)</b>	<b>Mandatory Sinking Fund Payment</b>
20__	\$
20__	
20__	
20__ <sup>(1)</sup>	

---

<sup>(1)</sup> Maturity.



### **Series D Bonds – Capital Appreciation Bonds**

The Series D Bonds issued as Capital Appreciation Bonds are not subject to redemption prior to their fixed maturity dates.

### **Series D Bonds – Convertible CABs**

*Optional Redemption.* The Series D Bonds issued as Convertible CABs are subject to redemption prior to their stated maturity dates, at the option of the District, from any source of available funds, on any date on or after \_\_\_ years from the Conversion Date of such Series D Bonds to be redeemed, as a whole or in part, at a redemption price equal to the principal amount of the Series D Bonds called for redemption, with interest accrued thereon to the date of redemption, without premium.

### **Notice of Redemption**

Notice of redemption for the Bonds will be mailed postage prepaid not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the respective registered owners thereof at the addresses appearing on the bond registration books. Such Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of the Paying Agent, (d) the redemption price or Maturity Value, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) the numbers of the Bonds to be redeemed in whole or in part and, in the case of any Bond to be redeemed in part only, the Principal Amount or Maturity Value, as appropriate, of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with the interest accrued to the redemption date in the case of Current Interest Bonds, and that from and after such date interest with respect thereto shall cease to accrue or accrete and be payable.

The actual receipt by any Owner of notice of such redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, will not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the date fixed for redemption.

When notice of redemption has been given, substantially as described above, and when the amount necessary for the payment of principal and Maturity Value of and premium, if any, is set aside for such purpose, the Bonds designated for redemption will become due and payable on the date fixed for redemption thereof, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, such Bonds will be redeemed and paid at said redemption price out of the money provided therefor, and interest will cease to accrue on such Bonds called for redemption after the redemption date specified in such notice, and the registered owners of said Bonds so called for redemption after such redemption date will look for the payment of such Bonds and the premium thereon only to such money provided therefor.

The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Bond

of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

### **Selection of Bonds for Redemption**

Whenever provision is made for the redemption of Bonds and less than all outstanding Bonds are to be redeemed, the Paying Agent, upon written instruction from the District given at least 45 days prior to the Interest Payment Date designated for such redemption, shall select Bonds for redemption in such order as the District may direct. Within a maturity, the Paying Agent shall select Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; provided, however, that the portion of any Bond to be redeemed in part shall be in the principal amount or Maturity Value of \$5,000 or any integral multiple thereof.

### **Effect of Notice of Redemption**

Notice having been given as required in the Resolution, and the moneys for redemption (including the interest to the applicable date of redemption) having been set aside in the Debt Service Fund, the Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Bonds to be redeemed, together with interest to such redemption date, shall be held by the Paying Agent so as to be available therefor on such redemption date, and if notice of redemption thereof shall have been given, then from and after such redemption date, interest on the Bonds to be redeemed shall cease to accrue and become payable.

### **Transfer and Exchange**

Any Bond may be exchanged for Bonds of like tenor, series, maturity and principal amount, Maturity Value or Conversion Value, upon presentation and surrender at the principal office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred on the Bond Register only upon presentation and surrender of such Bond at the principal office of the Paying Agent together with an assignment executed by the Owner or a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of like tenor and of any authorized denomination or denominations requested by the Owner equal to the principal amount of the Bond surrendered and bearing or accreting interest at the same rate and maturing on the same date.

### **Debt Service Schedules**

The tables on the following pages summarize the debt service requirements of the District for the Bonds and the District's General Obligation Bonds, Election of 2002, Series 2002 (the "2002 Bonds"), General Obligation Bonds (Election of 2002, Series 2004) (the "2004 Bonds"), General Obligation Bonds, Election of 2002, Series 2006 (the "2006 Bonds") and the Series 2010 Bonds:

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
DEBT SERVICE ON THE BONDS**

Bond Year Ending August 1	<u>Series C Bonds</u>		<u>Series D Bonds</u>			<u>Total Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Compounded Interest</u>	
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
2027						
2028						
2029						
2030						
2031						
2032						
2033						
2034						
2035						
2036						
Total						

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
DEBT SERVICE ON ALL OUTSTANDING GENERAL OBLIGATION BONDS**

Bond Year <sup>(1)</sup>	Series 2002 Bonds	Series 2004 Bonds	Series 2006 Bonds	Series 2010 Bonds	The Bonds	Total Debt Service
2011	\$ 3,766,462.50	\$ 8,661,968.76	\$ 3,643,030.00	\$4,055,277.59		
2012	3,765,600.00	8,620,893.76	3,906,430.00	2,813,922.10		
2013	3,747,600.00	8,566,643.76	4,197,180.00	2,813,922.10		
2014	3,750,362.50	8,522,893.76	4,155,680.00	2,813,922.10		
2015	3,739,362.50	8,516,862.50	3,607,680.00	6,493,922.10		
2016	3,733,862.50	8,514,000.00	3,600,817.50	5,478,190.90		
2017	3,723,362.50	8,481,000.00	3,652,467.50	6,148,344.50		
2018	3,731,525.00	8,453,750.00	3,660,637.50	6,857,688.20		
2019	3,737,550.00	8,426,500.00	3,655,912.50	7,589,637.20		
2020	3,741,662.50	8,403,750.00	3,634,275.00	8,341,776.80		
2021	3,754,837.50	8,379,750.00	3,593,250.00	9,102,163.40		
2022	3,766,362.50	8,364,000.00	3,526,550.00	9,961,444.80		
2023	3,776,000.00	8,345,500.00	3,440,300.00	10,928,459.90		
2024	3,780,750.00	8,333,750.00	3,340,400.00	11,933,505.70		
2025	3,787,500.00	8,327,750.00	3,212,525.00	12,978,068.30		
2026	3,795,750.00	8,326,500.00	3,058,025.00	14,066,678.50		
2027	-	8,324,000.00	6,688,250.00	15,195,242.10		
2028	-	8,329,500.00	6,469,750.00	16,390,737.50		
2029	-	8,331,750.00	6,235,500.00	17,758,112.50		
2030	-	-	14,311,250.00	19,304,662.50		
2031	-	-	13,996,500.00	20,964,437.50		
2032	-	-	-	6,817,637.50		
2033	-	-	-	5,812,650.00		
2034	-	-	-	6,047,050.00		
2035	-	-	-	6,286,837.50		
<b>Total</b>	<b>\$60,098,550.00</b>	<b>\$160,230,762.54</b>	<b>\$105,586,410.00</b>	<b>\$236,954,291.29</b>		

<sup>(1)</sup> The Bond Year ends August 1 for the 2002 Bonds and the 2010 Bonds, July 1 for the 2004 Bonds and June 1 for the 2006 Bonds. The Bond Year for the Series C Bonds and the Series D Bonds ends August 1.

**Defeasance**

If any or all Outstanding Bonds shall be paid and discharged in any one or more of the following ways: (a) by well and truly paying or causing to be paid the Principal of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Paying Agent, in trust, at or before maturity, cash which, together with the amounts then on deposit in the Debt Service Fund plus the interest to accrue thereon without the need for further investment, is fully sufficient to pay all Bonds Outstanding on their redemption date or at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; or (c) by depositing with an institution to act as escrow agent selected by the District and which meets the requirements of serving as Paying Agent pursuant to the Resolution, in trust, lawful money or noncallable direct obligations issued by the United States Treasury (including State and Local Government Series Obligations) or obligations which are unconditionally guaranteed by the United States of America and described under Section 149(b) of the Code and Regulations which, in the opinion of nationally

recognized bond counsel, will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds, in such amount as will, together with the interest to accrue thereon without the need for further investment, be fully sufficient, in the opinion of a verification agent satisfactory to the District, to pay and discharge all Bonds Outstanding at maturity thereof, including any premium and all interest thereon, notwithstanding that any Bonds shall not have been surrendered for payment; then all obligations of the District and the Paying Agent under the Resolution with respect to such Outstanding Bonds shall cease and terminate, except only the obligation of the Paying Agent to pay or cause to be paid to the Owners of the Bonds all sums due thereon, and the obligation of the District to pay to the Paying Agent amounts owing to the Paying Agent under the Resolution.

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

The Bonds will be issued under a book-entry system, evidencing ownership of the Bonds in principal amounts or Maturity Value of \$5,000 or integral multiples thereof, with no physical distribution of Bonds made to the public. DTC will act as depository for the Bonds, which will be immobilized in their custody. The Bonds will be registered in the name of Cede & Co., as nominee for DTC. For further information regarding DTC and the book entry system, see APPENDIX E hereto.

### **Continuing Disclosure Agreement**

In accordance with the requirements of Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission, the District will enter into a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) in the form of APPENDIX D hereto, on or prior to the sale of the Bonds in which the District will undertake, for the benefit of the Beneficial Owners of the Bonds, to provide certain information as set forth therein. The District is current on all filings required pursuant to its previous continuing disclosure agreements. See “CONTINUING DISCLOSURE” and “APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT” herein.

## **SECURITY FOR THE BONDS**

### **General**

The Bonds are general obligations of the District, and the Board of Supervisors of the County of Contra Costa has the power and is obligated to levy and collect *ad valorem* taxes upon all property within the District subject to taxation by the County, without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for payment of both principal, Maturity Value and Conversion Value of and interest on the Bonds. Subsequent to the issuance of the Bonds, \$\_\_\_\_\_ aggregate principal amount of general obligation bonds will remain for issuance under the Authorization. All general obligation bonds of the District are issued on a parity with one another.

## **THE PROJECTS**

The District intends to apply the net proceeds of the Bonds to finance the acquisition, construction, furnishing and equipping of District facilities in accordance with the bond proposition approved at the Election.

The “Strict Accountability in Local School Construction Bonds Act of 2000,” known as Proposition 39, comprising Section 15264 *et seq.* of the Education Code, controls the method by which the District will expend Bond proceeds on its capital improvements. Prior to the Election, the District

\* Preliminary; subject to change.

prepared and submitted to the Board for approval a master list of capital improvement projects to be built, acquired, constructed or installed with the proceeds of the Bonds (the “Project List”). The following description includes all elements of the Project List; however, for each series of the Bonds, the District will prioritize among these elements and will not undertake to complete all components of the Project List.

The projects to be constructed, improved, installed or otherwise implemented for the District from the proceeds of the Bonds and the other bonds issued under the Authorization includes the following elements, which were approved by the Board of the District for financing with such proceeds:

**Project List**

Bond proceeds will be expended to modernize, replace, renovate, expand, construct, acquire, equip, furnish and otherwise improve the classrooms and school facilities of the District, including those located at the following locations:

<b>Elementary Schools</b>			
Ayers	Bancroft	Bel Air	Cambridge
Cornerstone	Delta View	Eagle Peak	El Monte
Fair Oaks	Gregory Gardens	Hidden Valley	Highlands
Holbrook	Meadow Homes	Monte Gardens	Mt. Diablo
Mountain View	Pleasant Hill	Rio Vista	Sequoia
Shore Acres	Silverwood	Strandwood	Sun Terrace
Sunrise	Valhalla	Valle Verde	Walnut Acres
Westwood	Woodside	Wren Avenue	Ygnacio Valley
<b>Middle Schools</b>			
Diablo View	El Dorado	Foothill	Glenbrook
Oak Grove	Pine Hollow	Pleasant Hill	Riverview
Sequoia	Valley View		
<b>High Schools</b>			
Clayton Valley	College Park	Concord	Mt. Diablo
Northgate	Ygnacio Valley		

<b>Mt. Diablo Adult Education</b>	
Loma Vista Adult Center	Pleasant Hill Education Center

<b>Alternative Schools and Programs</b>			
Alliance Program	Cares After School Program	Coordinator Care Team	Crossroads NSHS
Diablo Day	Foster Youth Services	Gateway NSHS	Homeless
Home and Hospital	HOPE	Horizons: CIS	Horizons: Home Study
Nueva Vista NSHS	Robert R. Shearer Preschool	Shadelands	Summer School
Summit NSHS	Transitional Learning	Work Experience	

The specific school facilities projects to be funded include, but shall not be limited to:

### **School Renovation, Repair and Upgrade Projects**

- Renovate, repair, expand and/or upgrade the interior and/or exterior of existing classrooms and school facilities throughout the District, including infrastructure and landscaping improvements.
- Repair outdated temporary portable classrooms or replace with permanent classrooms.
- Repair and upgrade roofs, ceilings, walls, and floors.
- Replace existing wiring systems to meet current electrical and accessibility codes and increased capacity.
- Repair/replace existing plumbing systems to meet current codes, including drainage.
- Install additional and/or replace outdated heating, ventilation, air conditioning systems, and lighting systems with building code compliant systems.
- Provide enhanced computer labs.
- Upgrade, expand, repair and/or equip science labs, multi-purpose rooms, food service facilities, auditoriums, libraries, and other school facilities.
- Classroom interiors will receive improvements such as new paint, carpet/vinyl tile/asbestos abatement, white markerboards, tackable surfaces, increased secure storage capacity for instructional materials and equipment, etc.
- Replace existing window systems with energy efficient systems.

### **School Site Health, Safety and Security Projects**

- Upgrade or replace buildings that do not meet current minimum building code standards.
- Remove all dry rot and repair damaged caused by dry rot.
- Replace/upgrade existing signage, bells, clocks and fire protection systems.
- Install, repair, upgrade, or replace safety and security systems for students and staff, including new fencing around the schools.
- Install energy efficient systems including “green” building projects and sustainable building practices to promote energy-efficiency (e.g., solar, high performance lighting, electrical systems panel, HVAC etc.).
- Upgrade and repair play areas and play fields.
- Replace existing wooden doors and hardware.
- Upgrade, repair, or expand school site parking, driveways, walkways, ground, and utilities.
- Abate and remove hazardous materials identified prior or during construction.
- Repair, replace and/or upgrade paved surfaces, turf, and other grounds to eliminate safety hazards and improve outside instructional areas.

### **District-Wide Wiring and Technology for Instructional Support and Effective Learning Environment Projects**

- Upgrade and expand campus wide-intercom and wireless systems, and telecommunications, internet, and network connections.
- Upgrade media, audio/visual equipment, and other technology for effective learning environments, including smart boards and “distance learning”.
- Upgrade and replace classroom equipment and instructional aides.

## **Construction Projects at School Sites**

- Construct additional classrooms/classroom buildings, restrooms and other related school facilities throughout the District.

## **Miscellaneous Projects**

- Address unforeseen conditions revealed by construction/modernization (such as plumbing or gas line breaks, dry rot, seismic, structural, etc.).
- Other improvements required to comply with existing building codes, including the Field Act, and access requirements of the Americans with Disabilities Act.
- Necessary site preparation/restoration in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, removing, replacing, or installing irrigation, utility lines (such as gas lines, water lines, electrical lines, sewer lines, and communication lines), trees and landscaping, relocating fire access roads, and acquiring any necessary easements, licenses, or rights of way to the property.
- Rental or construction of storage facilities and other space on an interim basis, as needed to accommodate construction materials, equipment, and personnel, and interim classrooms (including relocatables) for students and school functions or other storage for classroom materials displaced during construction.
- Acquisition of any of the facilities on the Project List through temporary lease or lease-purchase arrangements, or execute purchase option under leases for any of these authorized facilities.
- For any project involving rehabilitation or renovation of a building or the major portion of a building, the District shall be authorized to proceed with new replacement construction instead, if the Board of Trustees determines that replacement and new construction is more economically practical than rehabilitation and renovation, considering the building's age, condition, expected remaining life, and other relevant factors.
- Acquisition of any of the facilities on the Bond Project List through temporary lease or lease-purchase arrangements, or execute purchase option under leases for any of these authorized facilities.
- Acquisition of leasehold interest on facilities currently subject to lease.
- All work necessary and incidental to specific projects described above, including demolition of existing structures.

The listed building repair and rehabilitation projects, including upgrades will be completed as needed. Each project is assumed to include its share of furniture, equipment, architectural, engineering, and similar planning costs, program management, staff training expenses and a customary contingency, and escalation for unforeseen design and construction costs. In addition to the listed repair and construction projects stated above, the Priority School Projects List also includes the payment of the costs of preparation of all facility planning, facility assessment reviews, environmental studies, construction documentation, inspection and permit fees, and temporary housing of dislocated District activities caused by bond projects. The allocation of bond proceeds may be affected by the District's receipt of State matching funds and the final costs of each project. In the absence of State matching funds, which the District will aggressively pursue to reduce the District's share of the costs of the projects, the District may not be able to complete some of the projects listed above. The budget for each project is an estimate and may be affected by factors beyond the District's control. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. Based on the final costs



of each project, certain of the projects described above may be delayed or may not be completed. Demolition of existing facilities and reconstruction of facilities scheduled for repair and upgrade may occur, if the Board determines that such an approach would be more cost-effective in creating more enhanced and operationally efficient campuses. Necessary site preparation/restoration, landscaping, may occur in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, removing, replacing, or installing irrigation, utility lines, trees and landscaping, redirecting fire access, and acquiring any necessary easements, licenses, or rights of way to the property.

### **Qualified School Construction Bond Qualified Purpose**

Because the Series C Bonds are designated as qualified school construction bonds under section 54F of the Code, the proceeds of the Series C Bonds (and earnings on the investment or reinvestment of such amounts) may be applied only for qualified expenditures under the ARRA which include construction, rehabilitation or repair of public school facilities or the acquisition of land upon which such a facility is to be constructed with proceeds of the Series C Bonds, and to payment of costs of issuance (not in excess of 2% of the issue price) of the Series C Bonds. Internal Revenue Service Notice 2009- 35, released April 3, 2009, which specified the allocations for Qualified School Construction Bonds, also provides that proceeds of obligations such as the Series C Bonds may be expended for “costs of acquisition of equipment to be used in such portion or portions of the public school facility that is being constructed, rehabilitated or repaired” with the proceeds of the related Qualified School Construction Bonds. The District expects to expend the proceeds of the Series C Bonds for Qualified Purposes within three years following their date of delivery, and that a binding commitment with a third party to spend at least 10 percent of such available project proceeds will be incurred within the six month period beginning on the date of the issuance of the Series C Bonds.

The District has covenanted to provide notice of its final expenditure of the proceeds of the Series C Bonds as a Notice of Material Event under its Continuing Disclosure Agreement. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

### **Projects to be Financed with the Proceeds of the Bonds**

The District intends to apply the net proceeds of the Bonds to construct new classrooms at College Park High School and Concord High School, to renovate the swimming pools at College Park High School and Mt. Diablo High School and to undertake repairs to the multi-use facilities at certain District elementary schools.

[In addition, the District intends to deposit a portion of the proceeds of the Series D Bonds into the Debt Service Fund to pay a portion of the interest on the Bonds through \_\_\_\_\_, 2011.]

## **TAX BASE FOR REPAYMENT OF THE BONDS**

### **Assessed Valuations**

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein.

A State-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following table presents the historical assessed valuation in the District for the last ten fiscal years. The District's total assessed valuation is \$29,906,094,881 in fiscal year 2010-11.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
SUMMARY OF ASSESSED VALUATIONS  
FISCAL YEARS 2000-01 THROUGH 2010-11**

	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total</u>
2000-01	\$18,052,446,343	\$4,512,934	\$810,049,196	\$18,870,362,920
2001-02	19,501,805,860	15,111,986	899,543,508	20,416,461,174
2002-03	20,950,443,237 <sup>(1)</sup>	14,591,990	942,041,048	21,892,484,285
2003-04	22,705,133,044	6,252,431	920,522,887	23,631,908,362
2004-05	24,434,456,724	6,489,435	868,334,641	25,309,280,800
2005-06	26,500,394,364	7,186,091	942,384,927	27,449,965,382
2006-07	29,196,571,252	6,300,577	951,192,569	30,154,064,398
2007-08	31,650,036,905	4,180,952	964,357,554	32,618,575,411
2008-09	31,738,225,590	3,832,225	1,062,848,164	32,804,905,979
2009-10	29,639,009,735	3,832,225	1,051,293,746	30,694,135,706
2010-11	28,924,776,672	7,279,811	974,038,398	29,906,094,881

Source: California Municipal Statistics, Inc. for fiscal years 2000-01 through 2009-10 and the County for fiscal year 2010-11.

The table below presents the 2010-11 assessed valuation within the District by jurisdiction.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
2010-11 ASSESSED VALUATION BY JURISDICTION<sup>(1)</sup>**

<b><u>Jurisdiction:</u></b>	<b><u>Assessed Valuation in School District</u></b>	<b><u>% of School District</u></b>	<b><u>Assessed Valuation of Jurisdiction</u></b>	<b><u>% of Jurisdiction in School District</u></b>
City of Clayton				
City of Concord				
City of Martinez				
City of Pittsburg				
City of Pleasant Hill				
City of Walnut Creek				
Unincorp. Contra Costa County				
Total Contra Costa County				

<sup>(1)</sup> Before deduction of redevelopment incremental valuation.  
Source: California Municipal Statistics, Inc.

The table below presents the 2010-11 assessed valuation within the District by land use.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
2010-11 Assessed Valuation and Parcels by Land Use**

	<b><u>2010-11</u></b>	<b><u>% of</u></b>	<b><u>No. of</u></b>	<b><u>% of</u></b>	<b><u>No. of</u></b>	<b><u>%</u></b>
	<b><u>Assessed Valuation</u></b> <sup>(1)</sup>	<b><u>Total</u></b>	<b><u>Parcels</u></b>	<b><u>Total</u></b>	<b><u>Taxable</u></b>	<b><u>Total</u></b>
					<b><u>Parcels</u></b>	
Non-Residential:						
Agricultural						
Commercial/Office						
Vacant Commercial						
Industrial						
Vacant Industrial						
Recreational						
Government/Social/Institutional						
Miscellaneous						
Subtotal Non-Residential						
Residential:						
Single Family Residence						
Condominium/Townhouse						
Rural Residential						
Mobile Home						
2-4 Residential Units						
5+ Residential Units/Apartments						
Vacant Residential						
Subtotal Residential						
 Total		%				

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

[Remainder of page intentionally left blank]

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
2010-11 Largest Total Secured Taxpayers**

<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2010-11 Assessed Valuation</u>	<u>% of Total<sup>(1)</sup></u>
1. Tesoro Refining & Marketing Co.	Heavy Industrial		
2. Bank of America	Office Building		
3. Taubman Land Associates LLC	Regional Mall		
4. Chevron USA Inc.	Office Building		
5. Sierra Pacific Properties Inc.	Office Building		
6. Transwestern Concord Corp. Center	Office Building		
7. Seecon Financial & Construction Co.	Office Building		
8. Rreef America REIT III Corp. B	Office Building		
9. Park Regency Partners	Apartments		
10. RVIP CA & WA/OR Portfolio LLC	Shopping Center		
11. GRE Walnut Creek LLC	Office Building		
12. San Marco Properties LLC	Undeveloped		
13. CA-Station Landing Devel Co.	Office Building		
14. Concord Airport Plaza Assoc.	Office Building		
15. PMI Plaza LLC	Office Building		
16. FW CA P H Shopping Center LLC	Shopping Center		
17. Clayton Valley Shopping Center	Shopping Center		
18. Leshar Communication Inc.	Newspaper		
19. CA-Treat Towers LP	Office Building		
20. Signature at Renaissance Square	Apartments		

<sup>(1)</sup> 2010-11 total secured assessed valuation: \$29,906,094,881.  
Source: California Municipal Statistics, Inc.

**Tax Rates**

The following table sets forth typical tax rates levied in Tax Rate Area (2-002) for fiscal years 2006-07 through 2010-11:

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
Typical Tax Rate per \$100 Assessed Valuation (TRA 2-002)**

	<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	
Bay Area Rapid Transit District	.0050	.0076	.0090	.0057	
East Bay Regional Park District	.0085	.0080	.0100	.0108	
Mount Diablo Unified School District	.0446	.0424	.0455	.0493	
Contra Costa Community College District	<u>.0043</u>	<u>.0108</u>	<u>.0066</u>	<u>.0126</u>	
Total All Property Tax Rate	\$1.0624	\$1.0688	\$1.0711	\$1.0784	
Contra Costa Water District (Land Only)	.0043	.0039	.0041	.0048	

Source: California Municipal Statistics, Inc.

## **The Teeter Plan**

The Board of Supervisors of the County, as of the 1950-51 fiscal year, approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan for the County, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the District, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan for the County is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County Treasury is the legal depository of tax collections.

Under the Teeter Plan, the District will receive 100% of its *ad valorem* property tax levied with respect to the Bonds irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County orders discontinuance of its Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the District) for which the County acts as the tax-levying or tax-collecting agency. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the District exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the District. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

The delinquency rate for *ad valorem* property taxes exceeded 3% within the District in fiscal years 2007-08 and 2008-09 but the County’s Teeter Plan has not been suspended. The District knows of no petition for the discontinuance of the Teeter Plan now pending in the County.

## **Secured Tax Charges and Delinquencies**

The following table sets forth the secured tax charges and delinquencies within the District from fiscal Year 2005-06 through fiscal Year 2009-10. Because the County participates in the Teeter Plan, the District does not realize property tax delinquencies but is paid 100% of property taxes levied in the District, regardless of delinquencies. See “ - The Teeter Plan” above.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
SECURED TAX CHARGES AND DELINQUENCIES  
FISCAL YEARS 2005-06 THROUGH 2009-10**

	<b><u>Secured Tax Charge</u></b> <sup>(1)</sup>	<b><u>Amount Delinquent June 30</u></b>	<b><u>% Delinquent June 30</u></b>
2005-06	\$10,926,049.04	\$174,279.51	1.60%
2006-07	12,845,645.49	353,719.90	2.75
2007-08	13,151,902.12	526,267.47	4.00
2008-09	14,200,845.88	460,317.48	3.24
2009-10			

<sup>(1)</sup> Bond debt service levy only.

Source: California Municipal Statistics, Inc.

**Direct and Overlapping Debt**

Numerous local agencies which provide public services overlap the District's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the District's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The District has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

[Remainder of page intentionally left blank]

The following table is a statement of the District's direct and estimated overlapping bonded debt as of February 1, 2011:

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
DIRECT AND OVERLAPPING BONDED INDEBTEDNESS**

2010-11 Assessed Valuation: \$29,906,094,881  
 Redevelopment Incremental Valuation: 3,663,044,759  
 Adjusted Assessed Valuation: \$26,243,050,122

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/11</u>
Bay Area Rapid Transit District	6.031%	\$ 24,960,198
Contra Costa Community College District	21.027	49,853,966
<b>Mount Diablo Unified School District</b>	<b>100.00</b>	<b>312,381,475</b> (1)
<b>Mount Diablo Unified School District Community Facilities District No. 1</b>	<b>100.00</b>	<b>56,445,000</b>
East Bay Regional Park District	9.346	15,897,546
Pleasant Hill Recreation and Park District	92.342	18,468,400
City of Martinez	36.356	5,329,790
City of Pittsburg Community Facilities District No. 2005-2	100.00	11,160,000
City of Pleasant Hill Downtown Community Facilities District	100.00	13,005,000
City of Clayton Community Facilities District Nos. 1990-1 and 1990-2	100.00	4,791,000
Contra Costa County Community Facilities District No. 1998-1	100.00	2,553,881
1915 Act Bonds (Estimated)	Various	<u>12,772,652</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$527,618,908</b>

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Contra Costa County General Fund Obligations	20.940%	\$ 70,335,223
Contra Costa County Pension Obligations	20.940	91,153,914
Contra Costa Community College District Certificates of Participation	21.027	208,167
City of Concord General Fund Obligations	100.00	13,785,000
City of Pleasant Hill General Fund Obligations	100.00	4,260,000
Other City General Fund and Pension Obligations	Various	6,112,243
Pleasant Hill Recreation and Park District Certificates of Participation	92.342	2,206,974
Contra Costa Fire Protection District Pension Obligations	44.916	<u>52,210,358</u>
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>		<b>\$240,271,879</b>
Less: Contra Costa County Obligations supported by revenue funds		<u>26,397,455</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$213,874,424</b>

**GROSS COMBINED TOTAL DEBT** \$767,890,787 (2)  
**NET COMBINED TOTAL DEBT** \$741,493,332

Ratios to 2010-11 Assessed Valuation:  
**Direct Debt (\$312,381,475) (3)** .....1.23%  
 Total Direct and Overlapping Tax and Assessment Debt .....1.76%

Ratios to Adjusted Assessed Valuation:  
 Gross Combined Total Debt .....2.93%  
 Net Combined Total Debt.....2.83%

- (1) Excludes issue to be sold.
- (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.
- (3) Includes Community Facilities District No. 1.

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0



## **DISTRICT FINANCIAL INFORMATION**

### **District Investments**

The Contra Costa County Treasurer-Tax Collector (the “Treasurer”) manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County’s Treasury Pool.

The composition and value of investments under management in the Treasury Pool vary from time to time depending on cash flow needs of the County and public agencies invested in the pool, maturity or sale of investments, purchase of new securities, and due to fluctuations in interest rates generally.

The proceeds from the sale of the Bonds (net of premium, if any) will be deposited in the County treasury to the credit of the Building Fund established under the Resolution (the “Building Fund”). Any premium or accrued interest received by the County from the sale of the Bonds will be deposited in the Debt Service Fund. Earnings on the investment of moneys in either fund will be retained in that fund and used only for the purposes to which that fund may lawfully be applied. Moneys in the Building Fund may only be applied for the purposes for which the Bonds were approved. Moneys in the Debt Service Fund may only be applied to make payments of interest, principal, Maturity Value and premium, if any, on bonds of the District.

All funds held in the Building Fund and the Debt Service Fund will be invested by the Treasurer at the direction of the District. All funds held in the Building Fund by the Treasurer under the Resolution will be invested pursuant to applicable law and the investment policy of the County, unless otherwise directed in writing by the District. At the written direction of the District, all or any portion of the Building Fund may be invested in the Local Agency Investment Fund in the treasury of the State, and all or any portion of the Building Fund may be invested on behalf of the District in investment agreements, including guaranteed investment contracts, which comply with the requirements of each rating agency then rating the Bonds necessary in order to maintain the then-current rating on the Bonds, provided that the Treasurer will be a signatory to any such investment agreement.

For a further discussion of the Pooled Investment Fund, see the caption “THE CONTRA COSTA COUNTY TREASURY POOL” herein.

### **Financial Statements of the District**

The District’s General Fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as State fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District has not requested its auditor to provide any review or update of such financial statements in connection with their inclusion in this Official Statement. Certain information from the District’s financial statements follows. The District’s audited financial statements for the 2009-10 fiscal year is attached hereto as APPENDIX C. The District has not requested, and its auditors have not provided, any review or update to such audited financial statements. The District’s audited financial statements for prior and subsequent fiscal years can be obtained by contacting the District at 1936 Carlotta Drive, Concord, California 94519, telephone (925) 682-8000. The District may impose a charge for copying, mailing and handling.

## **Revenues**

Revenue limit sources provided approximately 61.5% of total revenues of the District for 2009-10 and are budgeted to provide approximately 59.3% of total revenues of the District for 2010-11. Federal revenues represented approximately 10.4% of total revenues of the District for 2009-10 and are budgeted to provide approximately 13.1% of total revenues of the District for 2010-11. State revenues represented approximately 23.4% of total revenues of the District for 2009-10 and are budgeted to provide approximately 23.8% of total revenues of the District for 2010-11. Local revenues represented approximately 4.6% of total revenues of the District for 2009-10 and are budgeted to provide approximately 3.8% of total revenues of the District for 2010-11.

[Remainder of page intentionally left blank]

**General Fund**

The following table describes the District's audited financial results for the fiscal years 2007-08, 2008-09 and 2009-10.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
GENERAL FUND  
Statement of Revenues, Expenditures and Change in Fund Balances  
for Fiscal Years 2007-08, 2008-09 and 2009-10**

	<b>Fiscal Year 2007-08</b>	<b>Fiscal Year 2008-09</b>	<b>Fiscal Year 2009-10</b>
<b>REVENUES</b>			
Revenue Limit Sources	\$195,343,584	\$189,408,555	\$165,118,381
Federal Revenues	15,661,622	28,669,803	27,932,051
Other State Revenues	72,174,046	71,881,127	62,989,934
Other Local Revenues	<u>11,284,684</u>	<u>10,126,725</u>	<u>12,279,895</u>
<b>TOTAL REVENUES</b>	<b>\$294,463,936</b>	<b>\$300,086,210</b>	<b>\$268,320,261</b>
<b>EXPENDITURES</b>			
Certificated salaries	\$139,432,821	\$136,088,465	\$ 127,856,813
Classified salaries	45,670,549	45,559,089	44,202,482
Employee benefits	50,831,040	52,315,375	53,003,053
Books and supplies	15,443,407	10,452,524	12,110,363
Services and other operating expenditures	39,575,817	38,009,866	35,546,947
Capital outlay	5,900,302	2,229,7886	934,095
Direct support/indirect costs	1,179,633	(612,867)	(715,708)
Other outgo	275,431	3,021,460	2,456,908
Debt service			
Principal retirement	287,706	--	--
Interest	<u>275,431</u>	<u>--</u>	<u>--</u>
<b>TOTAL EXPENDITURES</b>	<b>\$298,596,706</b>	<b>\$287,063,698</b>	<b>\$ 275,394,953</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>\$ 4,132,770</b>	<b>\$ 13,022,512</b>	<b>\$ (7,074,692)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	\$ 2,271,967	\$ 1,758,835	-
Operating Transfers Out	(2,105,819)	(1,294,106)	(7,176,802)
Proceeds from issuance of long-term liabilities	<u>3,900,000</u>	<u>--</u>	<u>2,169,387</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ 4,066,148</b>	<b>\$ 464,729</b>	<b>\$ (5,007,415)</b>
Net Change in Fund Balances	(66,622)	13,487,241	(12,082,107)
Fund Balances at Beginning of Year	\$ 33,796,506	\$ 33,729,884	\$ 47,217,125
Fund Balances at End of Year	<u>\$ 33,729,884</u>	<u>\$ 47,217,125</u>	<u>\$ 35,135,018</u>

Source: The District.

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
GENERAL FUND  
Adopted Budget for Fiscal Years 2009-10 and 2010-11  
and First Interim Report  
for Fiscal Year 2010-11**

	<u>2009-10 Adopted Budget</u>	<u>2010-11 Adopted Budget</u>	<u>2010-11 First Interim Report</u>
<b>REVENUES</b>			
Revenue Limit Sources	\$174,716,743	\$163,258,111	\$171,807,569
Federal Revenues	22,746,451	20,508,626	38,126,869
Other State Revenues	60,890,740	67,729,805	68,944,564
Other Local Revenues	<u>8,454,135</u>	<u>8,304,326</u>	<u>11,070,383</u>
<b>TOTAL REVENUES</b>	<b>\$266,808,069</b>	<b>\$259,800,868</b>	<b>\$289,949,384</b>
<b>EXPENDITURES</b>			
Certificated Salaries	\$ 123,663,118	\$124,469,721	\$128,857,836
Classified Salaries	40,242,768	39,295,380	39,253,886
Employee Benefits	53,7007,432	55,621,204	56,346,845
Books and Supplies	12,773,291	12,326,799	34,740,676
Services and Other Operating Expenditures	33,963,449	34,654,790	39,948,080
Capital Outlay	192,720	302,707	429,944
Other Outgo (excluding Transfers of Indirect Costs)	3,434,397	2,487,065	1,355,536
Other Outgo – Transfers of Indirect Costs	<u>(764,223)</u>	<u>(740,508)</u>	<u>(730,339)</u>
<b>TOTAL EXPENDITURES</b>	<b>\$267,212,953</b>	<b>\$268,417,158</b>	<b>\$300,202,463</b>
Excess (Deficiency) of Revenues Over Expenditures	\$ (404,884)	\$ (8,616,290)	\$(10,253,078)
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating Transfers In	0	0	1,572,413
Operating Transfers Out	<u>6,409,846</u>	<u>3,486,037</u>	<u>3,486,037</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (6,409,846)</b>	<b>\$ (3,486,037)</b>	<b>\$ (1,913,624)</b>
Net Change in Fund Balances	(6,814,730)	(12,102,327)	(12,166,702)
Fund Balances at Beginning of Year	\$ 47,217,126	\$ 20,618,220	\$ 35,135,018
Fund Balances at End of Year	<u>\$ 40,402,396</u>	<u>\$ 8,515,894</u>	<u>\$ 22,968,316</u>

Source: The District.

## **Retirement System**

The District participates in the State of California Teachers Retirement System (“STRS”) which provides retirement benefits to certificated personnel. The District contributed \$10,972,015 to STRS for fiscal year 2007-08, \$10,954,293 for fiscal year 2008-09 and \$10,412,508 for fiscal year 2009-10. The District also participates in the State of California Public Employees’ Retirement System (“PERS”) which provides retirement benefits to classified personnel. The District contributed \$5,499,056 to PERS for fiscal year 2007-08, \$4,386,622 for fiscal year 2008-09 and \$4,359,337 for fiscal year 2009-10.

Both PERS and STRS are operated on a statewide basis and, based on available information, STRS and PERS both have unfunded liabilities. PERS may issue certain pension obligation bonds to reach funded status. (Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282.) The amounts of the pension/award benefit obligation (CalPERS) or actuarially accrued liability (STRS) will vary from time to time depending upon actuarial assumptions, rates of return on investments, salary scales, and levels of contribution. The District is unable to predict what the amount of unfunded liabilities will be in the future or the amount of the contributions which the District may be required to make.

## **Post-Employment Benefits**

In June 2004, the Governmental Accounting Standards Board (“GASB”) pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement was staggered in three phases based upon the entity’s annual revenues, similar to the implementation for GASB Statement No. 34 and 35. GASB Statement No. 45 (“GASB 45”) was effective for the District for the fiscal year ending June 30, 2008.

Employees who are eligible to receive retiree employment benefits other than pensions (“Health & Welfare Benefits”) while in retirement must meet specific criteria, *i.e.*, age and years with the District.

The District provides Health & Welfare Benefits to qualified eligible certificated employees and their eligible dependents who retire from the District on or after attaining age 55 with at 5 years of participation in STRS. The District provides Health & Welfare Benefits to qualified eligible classified employees who retire from the District on or after attaining age 55 with at least 5 years of participation in PERS and 5 years of service to the District. The District provides Health & Welfare Benefits to qualified eligible management and confidential employees and their eligible dependents who retire from the District on or after attaining age 55 with at least 5 years of participation in STRS or PERS. On May 1, 2008, 807 retirees met these qualifications. The District pays the medical premiums incurred by qualified retirees through age 64 (or eligibility for Medical for certain classified employees) and requires retirees to contribute to the cost of coverage based on the active employee contributions.

For certificated employees who retire prior to age 64 and management and confidential employees who retire prior to age 63, Health & Welfare Benefits include medical coverage for one dependant and dental coverage for all dependants (Effective in 2011, management and confidential employees who retire prior to age 63 will receive employee-only medical benefits). For certificated employees who retire at age 64, all classified employees and management and confidential employees who retire at age 64, Health & Welfare Benefits include employee only medical coverage and no dental coverage. Spouse and dependent coverage ceases upon death of the retiree.

Expenditures for post-employment healthcare benefits are recognized as the premiums are paid. During the year ended June 30, 2010, expenditures of \$3,837,135 were recognized for post-employment healthcare benefits. The District has completed an actuarial study of its Health and Welfare Benefits dated June 3, 2008. Based on that study, the District's Annual Required Contribution is \$8,043,769 and its unfunded actuarial accrued liability is \$71,000,000.

### Certain Existing Obligations

A schedule of the District's changes in long-term debt for the year ended June 30, 2010 is shown below:

	<b>Balance June 30, 2009</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2010</b>	<b>Due Within One Year</b>
Mello Roos bonds:					
Series 2002	\$ 22,620,000	--	\$ 1,205,000	\$ 21,415,000	\$ 1,255,000
Series 2005	14,245,000	--	550,000	13,695,000	565,000
Series 2006	26,735,000	--	1,765,000	24,970,000	1,815,000
Net issuance discount	(23,505)	--	(1,584)	(21,921)	(1,584)
General obligation bonds <sup>†</sup> :					
Series 2002	44,430,000	--	1,655,000	42,775,000	1,720,000
Series 2004	109,155,000	--	3,285,000	105,870,000	3,420,000
Series 2006	59,380,000	--	500,000	58,880,000	790,000
Net issuance premium	3,663,357	--	182,657	3,480,700	182,657
Certificates of Participation		--	230,000	5,440,000	240,000
Net issuance premium		--	1,881	29,001	1,881
Construction loan	5,636,148	--	97,106	5,539,042	--
Capitalized lease obligations		--	510,489	8,628,693	533,749
Post-employment healthcare Obligations	8,622,710	4,066,578	--	12,689,288	--
Compensated absences	3,558,522		198,533	3,359,989	--
<b>Total</b>	<b>\$312,862,296</b>	<b>\$ 4,066,578</b>	<b>\$ 10,179,082</b>	<b>\$ 306,749,792</b>	<b>\$ 10,521,703</b>

<sup>†</sup> Does not include the Series 2010 Bonds which were issued on September 30, 2010.  
Source: The District

### General Obligation Bonds

The District received authorization from the voters within the District to issue \$250,000,000 aggregate principal amount of general obligation bonds pursuant to an authorization on March 5, 2002 (the "2002 Authorization"). On June 20, 2002, the District issued \$69,400,000 principal amount of general obligation bonds under the 2002 Authorization; on June 10, 2004, the District issued \$121,000,000 principal amount of general obligation bonds under the 2002 Authorization and on May 11, 2006, the District issued \$59,600,000 principal amount of general obligation bonds under the 2002 Authorization. No further general obligation bonds remain to be issued under the 2002 Authorization. Pursuant to the Authorization, on June 8, 2010, the District received authorization from the voters within the District to issue \$348,000,000 aggregate principal amount of general obligation bonds. On September 30, 2010, the District issued the first and second series of bonds under the Authorization in the aggregate principal amount of \$109,996,475. Subsequent to issuance of the Bonds, \$\_\_\_\_\_ of general obligation bonds remain to be issued under the Authorization. See "THE BONDS – Debt Service Schedules" for the debt service payments to be made on all of the District's outstanding general obligation bonds.

\* Preliminary; subject to change.

### ***Certificates of Participation***

The District has no currently outstanding Certificates of Participation.

### ***Capital Leases***

The District leases computer equipment, copy machines and portable classrooms under various agreements. Future minimum lease payments are as follows under capital leases:

<b><u>Year Ended June 30</u></b>	<b><u>Lease Payments</u></b>
2011	\$ 926,780
2012	926,780
2013	926,780
2014	926,780
2015	926,780
2016-2020	4,633,900
2021-2024	<u>2,217,203</u>
Total Minimum Lease Payments	11,485,003
Less Amount Representing Interest	<u>(2,856,310)</u>
Net Minimum Lease Payments	<u>\$ 8,628,693</u>

Source: The District

## **MT. DIABLO UNIFIED SCHOOL DISTRICT**

### **District Organization**

The District, a unified school district of the State, was established on July 1, 1949, and is located in the northwestern portion of Contra Costa County. The District covers approximately 150 square miles including the cities of Concord, Pleasant Hill and Clayton, portions of the cities of Walnut Creek, Pittsburg and Martinez, and unincorporated areas of the County, including Pacheco and Bay Point and is located approximately 30 miles northeast of San Francisco. The District provides kindergarten through twelfth grade education services in thirty-one elementary schools, ten middle schools, six high schools and twenty alternative schools and programs, and provides adult education in two adult education centers. The District's estimated average daily attendance for fiscal year 2010-11 is [32,343.60] students, and the District has a 2010-11 assessed valuation of \$29,906,094,881.

The District is governed by a Board of Education (the "Board"). The Board consists of five members who are elected at-large to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board Members or by a special election. The years in which the current terms for each member of the Board expire are set forth below:

## BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires November</u>
Gary Eberhart	President	2012
Sherry Whitmarsh	Vice- President	2014
Lynne Dennler	Member	2014
Cheryl Hansen	Member	2014
Linda Mayo	Member	2012

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial statements of the District may be obtained by contacting: Mt. Diablo Unified School District, 1936 Carlotta Drive, Concord, California 94519, Attention: Chief Financial Officer. The District may charge a small fee for copying, mailing and handling.

### Key Personnel

The following is a listing of the key administrative personnel of the District.

<u>Name</u>	<u>Title</u>
Steven Lawrence, Ph.D.	Superintendent
Rose Lock	Assistant Superintendent of Student Achievement and School Support
Mildred Browne, Ed.D.	Assistant Superintendent, Special Education and Student Services
Julie Braun-Martin	Assistant Superintendent, Personnel Services
Gregory J. Rolen	General Counsel
Bryan Richards	Chief Financial Officer

**Steven Lawrence, Ph.D.** Superintendent Lawrence has been at the District since February 1, 2010. Prior to joining the District, Dr. Lawrence worked at Washington Unified School District where he served as Superintendent from July, 2006 through January, 2010. He has a total of 22 years of education experience. Dr. Lawrence earned a Bachelor of Arts in Applied Mathematics and Economics from Brown University and a Doctorate in Philosophy from University of California, Los Angeles.

**Bryan Richards.** Bryan Richards has served as the Chief Financial Officer of the District since \_\_\_\_, 2010, prior to which he was the Chief Business Official of the District for \_\_ years. Prior to joining the District, Mr. Richards served as \_\_\_\_\_. Mr. Richards earned a \_\_\_\_\_.

### District Employees

The District employs approximately 1,806.94 full-time equivalent certificated academic professionals as well as 961.44 full-time equivalent classified employees.

The certificated employees, with the exception of school psychologists, of the District have assigned the Mount Diablo Education Association (“MDEA”) as their exclusive bargaining agent. The



contract between the District and MDEA expired on June 30, 2010. **The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.**

The school psychologists of the District have assigned the Mount Diablo School Psychologists Association (“MDSPA”) as their exclusive bargaining agent. The contract between the District and MDSPA expired on June 30, 2010. **The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.**

The classified employees in the maintenance, operations and transportation departments of the District have assigned Public Employees Union, Local #1, Maintenance & Operations Unit (“Local #1 M&O”) as their exclusive bargaining agent and the contract between the District and Local #1 M&O expired on June 30, 2010. **The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.**

The classified employees in the clerical, secretarial and technical positions have assigned Public Employees Union, Local #1, Clerical, Secretarial & Technical Unit (“Local #1 CST”) as their exclusive bargaining agent and the contract between the District and Local #1 CST expired on June 30, 2010. **The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.**

The classified employees in instructional aide and campus supervisor positions have assigned California School Employees Association (“CSEA”) as their exclusive bargaining agent and the contract between MDUSD and CSEA expired on June 30, 2010. **The parties are operating under the terms of the expired contract while negotiations are underway for a new contract.**

## **Insurance**

The District is a member of CSAC Excess Insurance Authority (“CSAC-EIA”), Schools Excess Liability Fund (“SELF”) and the Schools’ Self Insurance of Contra Costa County (“SSICCC”), each a joint powers authority that provides various types of insurance to its members as requested. The District is self-insured for property and liability claims up to \$100,000 per property loss and \$100,000 per liability claim. Liability claims in excess of \$100,000 and up to \$900,000 are covered by a commercial insurance policy. The District’s liability claims over \$900,000 are covered by SELF. Property claims in excess of \$100,000 are covered by a commercial insurance policy up to \$149,000,000.

The District maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverages for property damage, fire and theft, general public liability and worker’s compensation as are adequate, customary and comparable with such insurance maintained by similarly situated unified school districts. In addition, based upon prior claims experience, the District believes that the recorded liabilities for self-insured claims are adequate.

## **District Growth**

The District has experienced population and student enrollment decline in the past several years. The table below sets forth the enrollment for Average Daily Attendance (“ADA”) for the District for the Fiscal Years ending 2008 through 2011 and a projection of Fiscal Year ending June 30, 2012.

**MT. DIABLO UNIFIED SCHOOL DISTRICT**  
**Enrollment and Average Daily Attendance**  
**Fiscal Years 2007-08 through 2011- 12**

<u>Fiscal Year</u>	<u>Enrollment</u>	<u>ADA</u>	<u>Change in ADA From Prior Year</u>	<u>Revenue Limit Per A.D.A</u>
2007-08	35,355	33,355.21	-201.57	5,780.02
2008-09	34,953	33,208.96	-146.25	5,629.83
2009-10	34,200	32,658.38	-550.50	4,947.49
2010-11 <sup>(1)</sup>	33,870	32,343.60	-314.78	4,936.51
2011-12 <sup>(2)</sup>				

<sup>(1)</sup> As of \_\_\_\_, 2011.

<sup>(2)</sup> Projected.

Source: The District.

**Developer Fees**

The District receives Developer Fees per square foot pursuant to Education Code Section 17620. Current Developer Fees are \$2.97 per square foot for residential housing and \$0.47 per square foot for commercial or industrial development.

<u>Fiscal Year</u>	<u>Developer Fees Collected</u>
2006-07	\$3,412,466
2007-08	1,685,522
2008-09	867,773
2009-10	645,453
2010-11 <sup>(1)</sup>	46,006

<sup>(1)</sup> Projected.

Source: The District.

**State Funding of Education**

The State Constitution requires that from all State revenues there will first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education. As discussed below, most school districts in the State receive a significant portion of their funding from State appropriations.

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit (as described below) per unit of average daily attendance (“ADA”). Generally, such apportionments will amount to the difference between the District’s revenue limit and the District’s local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (*i.e.*, unified, high school or elementary). State law also provides for State support of specific school-related programs, including summer school, adult education, deferred maintenance of facilities, pupil transportation, portable classrooms and other capital outlays and various categorical aids.

The State revenue limit is calculated three times a year for each school district. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for

the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Principal Apportionment. Calculations are reviewed by the County Office of Education and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of State aid owed to such school district and notify the State Controller of the amount, who then distributes the State aid.

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

## **State Budget**

The District's principal funding formulas and revenue sources are derived from the budget of the State of California. **The following information concerning the State of California's budgets has been obtained from publicly available information which the District believes to be reliable; however, the State has not entered into any contractual commitment with the District, the County, the Underwriter, Bond and Disclosure Counsel nor the owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, none of the District, Bond and Disclosure Counsel nor the Underwriter assume any responsibility for the accuracy of the State budget information set forth or referred to herein or incorporated by reference herein. Additional information regarding State budgets is available at various State-maintained websites including [www.dof.ca.gov](http://www.dof.ca.gov), which website is not incorporated herein by reference.**

***Final 2010-11 Budget.*** The 2010 Budget Act was signed by the Governor on October 8, 2010 and closed an estimated budget gap of \$19.3 billion by a combination of expenditure reductions, federal funds and other solutions. The 2010 Budget Act holds General Fund spending essentially flat compared to the prior year (\$86.6 billion in fiscal year 2010-11 compared to \$86.3 billion in fiscal year 2009-10). In order to create a prudent reserve for economic uncertainties, the Governor exercised his line-item veto authority to reduce General Fund spending by an additional \$963 million, raising the reserve level from \$375 million to \$1.3 billion. The 2010 Budget Act also makes a number of reductions in health and human services programs, but does not eliminate CalWORKs, community mental health programs, Adult Day Health care, or reductions proposed to the In Home Supportive Services program.

The 2010 Budget Act includes: (i) savings of over \$1.1 billion for corrections, from reduced inmate medical care costs (\$820 million), cuts from inmate and parole population savings (\$200 million), and delayed local assistance payments (\$50 million); (ii) reduced spending for state employees by \$1.5 billion, including \$547.7 million in savings through a five percent reduction to departmental personnel costs and by pre-funding other post employment benefit costs, as well as \$2.5 billion in revenue solutions, comprising \$1.4 billion from the Legislative Analyst's revenue forecast, which was \$1.4 billion higher than the Governor's May Revision; (iii) the extension of the Net Operating Loss corporate tax benefit

suspension for an additional two years, which results in increased tax revenue of about \$1.2 billion in 2010-11 and revision to recent corporate tax law changes related to penalties assessed when a corporation underpays their tax liability by more than \$1 million; and (iv) various changes to state pension laws for new state employees including those in bargaining units that do not currently have a Memorandum of Understanding with the State, as well as employees of the California State University, the judicial branch of government, and the Legislature.

As it relates to K-14 Education, the 2010-11 Budget Act includes the following:

*Department of Education* — A decrease of \$2.6 million and 22.0 positions associated with administering categorical programs. School districts have recently been granted flexibility to shift funds among and away from approximately 40 categorical programs, resulting in less workload for departmental administration and oversight.

*Proposition 98* — A suspension of the Proposition 98 Guarantee by \$4.1 billion. Even with the suspension, the Proposition 98 Guarantee funding level for K-14 education remains the same as the 2009-10 fiscal year in an effort to protect education; and with assumed federal funding increases, it improves year over year. The 2010 Budget Act reduces the Proposition 98 Guarantee from the estimated minimum funding level of \$53.8 billion down to a level of \$49.5 billion. In addition, a repayment of \$300 million in settle-up payments related to fiscal year 2009-10 is provided to pay for mandated costs. The actions necessary to reduce the level of appropriations in 2010-11 to match the desired appropriations level include (i) a decrease of \$1.7 billion, in Proposition 98 General Fund in 2010-11 to reflect a deferral of revenue limit apportionments for K-12 school districts, county offices of education and charter schools, to be repaid in the 2011-12 fiscal year; (ii) a decrease of \$700 million in unallocated ending balances as of June 30, 2010 from a variety of K-12 categorical programs. Of these unallocated funds, approximately \$360 million are as a result of program savings; the balance of \$340 million is attributable to Special Education, all of which will be repaid with one-time fiscal year 2009-10 savings from the Class Size Reduction program.

*Class Size Reduction Program Savings* — A reduction of \$550 million to reflect projected savings in the K-3 Class Size Reduction program in fiscal year 2010-11. A reduction of \$340 million to reflect projected savings in the K-3 Class Size Reduction program in fiscal year 2009-10. Since the penalties for exceeding class size limits were significantly reduced in fiscal year 2009-10, program savings due to schools increasing class sizes are anticipated.

*California Community Colleges* — A decrease of \$129 million to reflect a deferral of \$129 million in apportionments at the rate of \$21.5 million per month for the last six months of the fiscal year, to be repaid in the 2011-12 fiscal year; approximately \$35 million to backfill categorical cuts imposed in fiscal year 2010-11 (replacing the ARRA backfill); approximately \$25 million for the Economic and Workforce Development program to "meet emerging workforce needs;" approximately \$20 million for Career Technology programs; no cost-of-living adjustment (positive or negative); \$189 million of the 2010 Budget Act "increase" being paid from a new deferral of \$189 million from fiscal year 2010-11 to the 2011-12 fiscal year, creating a total inter-year deferral of \$892 million; roll-backs on many of the benefit enhancements to PERS for employees first hired into the system after November 10, 2010.

A complete copy of the 2010 Budget Act is posted by the California Department of Finance website at [www.ebudget.ca.gov](http://www.ebudget.ca.gov). This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

**Legislative Analyst's Office Overview of 2010 Budget Act.** The Legislative Analyst's Office ("LAO") Overview of the 2010 Budget Act (the "2010 LAO Overview") released October 8, 2010, acknowledges the 2010 Budget Act's attempt to address one of the most vexing State budget shortfalls in California's history, the product of a continuing structural imbalance between State revenues and expenditures and a slow recovery from a severe recession that began in 2007 and ended in 2009. The 2010 LAO Overview notes that in May 2010, the Administration estimated that there would be a gap of \$17.9 billion between General Fund resources and expenditures in 2010-11 under then-existing laws and policies. To address this projected gap, the Legislature opted for a package of budget actions (prior to vetoes) including \$6.8 billion of expenditure-related solutions, \$5.4 billion of new federal funding (most of it not yet approved by Congress), \$3.3 billion of revenue actions, \$2.7 billion of largely one-time loans, transfers, and funding shifts. The LAO also notes that the 2010 Budget Act does not include the Governor's proposed elimination of the CalWORKs and subsidized childcare, and it does not include reductions in social services grant levels. The LAO believes that if all of the assumptions are met in the 2010 Budget Act and accompanying legislation, the State would be left with a \$364 million General Fund reserve at the end of 2010-11, however, the LAO also notes that two-thirds of the 2010 Budget Act solutions are one-time or temporary in nature, such that California will continue to face sizable annual budget problems in 2011-12 and beyond.

As the 2010 Budget Act relates to K-14 education the 2010 LAO Overview states that ongoing Proposition 98 funding is slightly higher in 2010-11 (\$49.7 billion) than the revised fiscal year 2009-10 level (\$49.5 billion) and that to fund at this level the State Legislature suspended the Proposition 98 minimum guarantee for 2010-11. The LAO reports that the State is ending fiscal year 2009-10 with a "settle-up obligation" to the effect that the State appropriated less in fiscal year 2009-10 than the revised estimate of the minimum guarantee for that year. The LAO estimates that the fiscal year 2009-10 settle-up obligation is \$1.8 billion.

In addition, the 2010 Budget Act spends \$242 million in fiscal year 2010-11 using one-time Proposition 98 funds available from prior years and increases Proposition 98 funding for community colleges, and provides \$300 million as a payment to begin to meet the State's outstanding 2009-10 Proposition 98 settle-up obligation. On top of State funding, related budget bills provide K-12 education with \$1.5 billion in special one-time federal funding, \$1.2 billion of which is from recent federal grants provided specifically to help retain K-12 jobs, and \$272 million from the last round of federal stabilization funding from the 2009 stimulus package. The LAO recognizes that, though the State is providing slightly more ongoing funding in 2010-11 than 2009-10, the large reliance on one-time solutions in fiscal year 2009-10 resulted in the need for 2010-11 reductions, and that under the 2010 Budget Act and accompanying legislation, the reductions are largely treated as deferrals of payments rather than cuts, specifically deferring \$1.9 billion in additional K-14 payments (\$1.7 billion for K-12 education and \$189 million for community colleges). The LAO also recognizes that 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.

A complete copy of the 2010 LAO Overview is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

**LAO's November 2010 Report.** On November 10, 2010, the LAO released its report entitled The 2011-12 Final Budget: California's Fiscal Outlook (the "LAO's November 2010 Report") in which the LAO recognizes that the State's budget challenges include a \$6 billion projected deficit for fiscal year 2010-11 and a \$19 billion shortfall between projected revenues and spending in fiscal year 2011-12. The LAO's November 2010 Report assumes that the State will be unable to secure approximately \$3.5 billion of budgeted federal funding in fiscal year 2010-11 and projects higher than budgeted costs in prisons and

other programs as well as that the passage of Proposition 22 will prevent the State from achieving approximately \$800 million of budgeted solutions in fiscal year 2010-11. The LAO's November 2010 report states that the temporary nature of most of the State Legislature's 2010 budget-balancing actions and the extremely slow economic recovery will contribute to the \$19 billion projected operating deficit in fiscal year 2011-12 and that actions taken by the State Legislature during the fiscal year 2010-11 budget process to reduce Proposition 98 education spending are a major contributor to the deficit. Accordingly, the LAO projects annual budget shortfalls of approximately \$20 billion each year through 2015-16. In fiscal year 2012-13, when the State must repay its 2010 borrowing of local property tax revenues and the full effect of Propositions 22 and 26 are realized, the LAO's November 2010 Report forecast indicates that the State's operating deficit will increase to \$22.4 billion and that, because the LAO's methodology generally assumes no cost-of-living adjustments, these projections likely understate the magnitude of the State's fiscal problems during that forecast period.

The LAO's November 2010 Report also states that additional savings from Proposition 98 will be difficult to achieve because General Fund revenues and transfers will decline by more than \$8 billion in fiscal year 2011-12 due to the expiration of temporary tax increases adopted in 2009. Because the Proposition 98 minimum school funding guarantee is affected by this reduction, the LAO's budget forecast includes a \$2 billion fall in the minimum guarantee between fiscal year 2010-11 and 2011-12, a reduction that would come at the same time that school districts exhaust the billions of dollars of one-time federal money they have received through the stimulus program and other legislation. For these reasons, the LAO believes it may be difficult for the State to achieve substantial additional budget reductions in Proposition 98 funding in fiscal year 2011-12 so that, if the Legislature funds schools at the LAO's projected minimum guarantee in fiscal year 2011-12.

For 2011-12, the LAO projects the Proposition 98 minimum guarantee will be approximately \$2 billion lower than the fiscal year 2010-11 spending level due to the expiration of tax increases that temporarily raised tax revenues in fiscal years 2009-10 and 2010-11. The LAO's November 2010 Report also projects that local property tax revenues are likely to grow modestly and that the State will have an outstanding maintenance obligation of \$9.5 billion at the end of fiscal year 2010-11 and \$4 billion in new maintenance in fiscal year 2011-12. The LAO also predicts that the minimum guarantee will be \$5.2 billion short of fully funding baseline K-14 costs in fiscal year 2011-12 so that, if the State funded at the minimum guarantee level in fiscal year 2011-12, school and community college districts would confront significant programmatic reductions due to the decline in Proposition 98 funding in fiscal year 2011-12 coupled with the cost of backfilling for the loss of one-time fiscal year 2010-11 budget solutions. These reductions would occur at the same time as school districts exhaust one-time revenues from the federal stimulus legislation and the Education Jobs and Medicaid Assistance Act of 2010. While the minimum guarantee funding level in subsequent years could be sufficient to cover growth and cost of living adjustment, funding would be insufficient to restore reductions made in fiscal years 2008-09 through fiscal year 2010-11. The LAO believes that given the potentially sizeable drop in the minimum guarantee in fiscal year 2011-12, the State Legislature should eliminate the \$1.8 billion in K-14 payments deferred until July 2011 as part of the final 2010-11 budget as such deferrals translate into K-14 cuts almost double the level otherwise needed in fiscal year 2011-12. The LAO also states that, given that most K-14 districts have been cautious in increasing fiscal year 2010-11 program support as a result of the deferrals and some districts have been unable to access cash sufficient to support new spending paid for by the new deferrals, many districts would not be significantly impacted in fiscal year 2010-11 if the new deferral payments were eliminated.

The LAO believes that the State will face the basic choice to either begin to address today's huge, frustrating budget problems now or defer the State's budgetary and policy problems into the future. Accordingly, the LAO's November 2010 Report recommends that the State Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit. In fiscal year 2011-12, the LAO

believes that such an approach might involve \$10 billion of permanent revenue and expenditure actions and \$15 billion of temporary budget solutions and another few billion of permanent actions each year could be initiated in the next following fiscal years, along with other temporary budget solutions, until the structural deficit is eliminated.

A complete copy of the LAO's November 2010 Report is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

**ABX8 5 and ABX8 14.** On March 1, 2010, the Governor signed into law ABX8 5, effective immediately, which included several measures meant to allow the State to effectively manage its cash resources in fiscal years 2009-10 and 2010-11. For fiscal year 2009-10, ABX8 5 authorized the deferral of General Fund payments to be made to trial court operations, the California University system, the University of California system, and community college districts in March 2010 to no sooner than April 15, 2010, but no later than May 1, 2010. Prior to such deferrals, the State Controller, Treasurer, and Director of Finance was required to review the actual cash situation to determine if the deferrals are in-fact necessary. Further, if such deferrals were implemented, the Controller, Treasurer and Director of Finance, after April 1, were required to review daily the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. To address the cash management issues in fiscal year 2010-11, ABX8 5 authorized specific deferrals to K-12 apportionments, Supplemental Security Income/State Supplementary Payments, local government social services and transportation payments and trial court operations. These deferrals were allowed only in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days. Prior to the implementation of such deferrals, the Controller, Treasurer and Director of Finance was required to review the actual cash receipts and disbursements to determine if they were in-fact necessary. Further, if such deferrals were implemented, the Controller, Treasurer and Director of Finance, after July 1, 2010, were required to conduct a daily review of the actual cash receipts and disbursements to determine when all or a portion of the deferrals can be paid, and to make such payments as soon as feasible. In addition, such deferrals may be moved forward or backward one month from the dates specified if all three of the Controller, Treasurer and Director of Finance determined that a move was necessary. ABX8 5 limited the K-12 deferrals to \$2.5 billion at any given time during the fiscal year 2010-11 and sets a maximum of three K-12 deferrals during the fiscal year. ABX8 5 provided a hardship exemption for County Offices of Education, Local Education Agencies and Charter Schools. ABX8 5 further authorized the deferral of \$200 million from July 2010 to October 2010 and \$100 million from March 2011 to May 2011 for community college districts. ABX8 5 also provided for a hardship exemption for community college districts.

On March 22, 2010, the Governor signed into law, effective immediately, ABX8 14 which amended the cash management provisions for 2009-10 and 2010-11 enacted into law pursuant to ABX8 5. With regard to the 2009-10 cash management issues, ABX8 14 provided a hardship exemption process for the current year deferrals for community college districts and makes them the first entity to have deferrals paid as soon as funds are available. As to the 2010-11 cash issues, ABX8 14 clarified the hardship exemption process for school districts, county offices of education and charter schools and provided certain other changes pertaining to those provisions. In addition, ABX8 14 required the State Controller, State Treasurer, and Director of Finance to jointly provide a written declaration of the intended payment deferrals for the 2010-11 fiscal year, allowed in July 2010 for no more than 60 days, October 2010 for no more than 90 days, and March 2011 for no more than 30 days, as well as requiring approval by the Director of Finance for hardship exemptions; and stated the intent of the legislature that July 2010 deferrals shall first be made from the advance principal apportionment payment. The legislation also delayed the date by which hardship exemption requests must be submitted (including with respect to 2010-11 community college district deferrals) and provided a second hardship waiver

opportunity for the March 2011 deferral for those District's that did not receive an initial hardship waiver in June 2010.

**Proposed 2011-12 Budget.** The Governor released his proposed fiscal year 2011-12 State budget (the "Proposed 2011-12 Budget") on January 10, 2011. The Proposed 2011-12 Budget projects that the State will face a budget gap of \$25.4 billion in fiscal year 2011-12 as a result of a shortfall of \$8.2 billion attributable to fiscal year 2010-11 and a shortfall of \$17.2 billion attributable to fiscal year 2011-12. The Proposed 2011-12 Budget provides that the 2010-11 State budget relied, in part, on unrealistic assumptions, including the receipt of \$3.6 billion in federal funds and \$1.7 billion in reductions that were not achieved, and indicates that \$26.4 billion in cuts, taxes and other budget measures will be necessary to close the fiscal year 2011-12 budget gap and provide for a reserve of \$1 billion.

The Proposed 2011-12 Budget recognizes that fiscal year 2010-11 revenues are \$3.1 billion lower than were projected at the time of approval of the 2010-11 State budget, in part due to the recently enacted federal tax relief, unemployment insurance reauthorization, and the Job Creation Act of 2010. In addition, the passage of Proposition 22, which prohibits the use of certain transportation funds to pay for debt service or for loan to the General Fund, creates an additional budget shortfall of \$1.6 billion. The Proposed 2011-12 Budget also anticipates that other workload adjustments including population and caseload changes will add \$2.1 billion to the budget gap. The Proposed 2011-12 Budget reduces spending by \$12.5 billion, including substantial cuts to most major programs, such as \$1.7 billion to Medi-Cal, \$1.5 billion to California's welfare-to-work program, \$1 billion to the University of California and California State University, \$750 million to the Department of Developmental Services and \$580 million to State operations and employee compensation. The Proposed 2011-12 Budget proposes a total of \$14 billion in new revenues.

The Proposed 2011-12 Budget calls for an accelerated timeline to restore balance to the State's finances and assumes that all necessary statutory changes to implement budget measures will be adopted by the State Legislature and signed by the Governor by March of 2011 to allow certain ballot measures to be placed before the voters at a special election to be called for June 2011.

The Proposed 2011-12 Budget includes some one-time savings and borrowing, including \$1.8 billion in borrowing from special funds, \$1.7 billion in property tax shifts, \$1.0 billion from the Proposition 10 reserve to fund children's programs, and \$0.9 billion from Proposition 63 moneys to fund community mental health services. \$8.2 billion of the budget gap is expected to be one-time in nature.

The Proposed 2011-12 Budget projects the State will have sufficient cash to repay the entire \$10 billion of State revenue anticipation notes as scheduled in May and June 2011. However, absent corrective action, the State will face substantial challenges in meeting all General Fund cash needs beginning in July of 2011 so that, in addition to the current budget proposals, the State will need to obtain external financing early in the 2011-12 fiscal year. The Governor has proposed that legislation similar to the Cash Management Bill enacted for fiscal year 2010-11 be enacted for fiscal year 2011-12. See "ABX8 5 and ABX8 14" above. Such legislation made it necessary for many school districts (and other affected local agencies) to increase the size and/or frequency of their cash flow borrowings during fiscal year 2010-11.

The Proposed 2011-12 Budget plan includes \$2.2 billion in new inter-year deferrals from 2011-12 to 2012-13, \$2.1 billion of which will derive from K-12 revenue limit payments and \$129 million from community colleges apportionment payments. Such deferrals are in addition to the \$1.7 billion of deferrals that were part of the 2010-11 State budget.



The Proposed 2011-12 Budget recognizes that school funding has been disproportionately reduced since fiscal year 2007-08 and maintains Proposition 98 funding for K-12 programs at the same level for fiscal year 2011-12 as is in effect for fiscal year 2010-11. In an effort to maintain funding for schools, fund public safety services at the local level and to balance the budget, the Proposed 2011-12 Budget anticipates that current tax rates will be continued for another five years and also proposes to apply the single sales factor income allocation rules uniformly to certain corporate taxpayers and to eliminate an ineffective tax expenditure program. These proposals are expected to generate revenues of \$12 billion. The Governor proposes to place a ballot measure before the voters in a special election to be held in June of 2011 calling for a constitutional measure to extend the four temporary tax increases adopted in February 2009. In the event the voters do not approve the extension of these tax increases, further reductions in spending could be made which would likely impact funding for K-12 education.

As it relates to K-12 Education, the Proposed 2011-12 Budget slightly lowers Proposition 98 programmatic funding for fiscal year 2011-12 (\$49.3 billion) from fiscal year 2010 11 (\$49.7 billion) and extends flexibility reforms (discussed below) adopted in 2009 to assist school districts to maintain their core services. Total funding for K-12 education is projected to be \$63.8 billion in fiscal year 2011-12, \$59.5 billion of which is State, federal and local property tax funding accounted for in the Proposed 2011-12 Budget. Total per-pupil expenditures from all sources are projected to be \$11,154 in fiscal year 2010-11 and \$10,703 in fiscal year 2011-12, including funds provided for prior year “settle-up” obligations. K-12 Proposition 98 per-pupil expenditures in the Proposed 2011-12 Budget are \$7,344 in 2011-12, down slightly from \$7,358 per-pupil provided in fiscal year 2010-11.

Major workload adjustments for K-12 education included in the Proposed 2011-12 Budget include the following:

*Cost-of-Living Adjustment Increases* — The Proposed 2011-12 Budget does not provide a COLA for any K-14 program in fiscal year 2011-12. The projected COLA for 2011-12 is 1.67%, which would have provided an increase of \$964.5 million overall, to the extent Proposition 98 resources were sufficient to provide that adjustment.

*Property Tax* — A decrease of \$47.9 million for school district and county office of education revenue limits is made in fiscal year 2010-11 as a result of higher offsets of property tax revenues. An increase of \$155.7 million for school district and county office of education revenue limits in fiscal year 2011-12 as a result of reduced offsets of local property tax revenues.

*Average Daily Attendance* — An increase of \$81.4 million in fiscal year 2010-11 for school district and county office of education revenue limits is made as a result of an increase in projected ADA and an increase of \$357.5 million in fiscal year 2011-12 for school district and county office of education revenue limits as a result of continued projected growth in ADA for fiscal year 2011-12.

*Unemployment Insurance* — An increase of \$351.8 million in fiscal year 2011-12 is made to fully fund the additional costs of unemployment insurance for local school districts and county offices of education.

*K-14 Mandates Funding* — Ongoing funding of \$89.9 million is provided for K-14 mandates to provide level funding relative to fiscal year 2010-11, for reimbursement of state mandated local costs. Current law suspends for three additional years those programs that were suspended during fiscal year 2010-11.

Some significant non-General Fund workload adjustments are as follows:

*School Construction Program* — The workload budget includes a \$316 million decrease in fiscal year 2009-10 actual expenditures, a \$2.07 billion increase in fiscal year 2010-11 estimated expenditures and a \$1.97 billion decrease in fiscal year 2011-12 estimated expenditures for school facilities. These amounts are largely attributable to the anticipated allocation of remaining funds from the 1998, 2002, and 2004 bonds. No proposal was made by the Governor to place a school construction bond on the ballot for the 2012 election cycle.

*Child Nutrition Program* — An increase of \$36.1 million in fiscal year 2011-12 to the State Department of Education (“SDE”) local assistance from federal funds to reflect growth of nutrition programs at schools and other participating agencies and an increase of \$12.0 million in fiscal year 2011-12 to the SDE local assistance from federal funds for the Fresh Fruit and Vegetable Program, which provides an additional free fresh fruit or vegetable snack to students during the school day.

The Proposed 2011-12 Budget also proposes to extend various flexibility options for school districts for two additional years. Specifically, it extends authority in the following areas:

*Categorical flexibility* — For fiscal years 2008-09 through 2012-13, local educational agencies were given broad flexibility to spend funds for approximately 40 K-12 categorical programs for any educational purpose. Under categorical flexibility, a district’s allocation for each program is based on its share of total program funding either in fiscal year 2007-08 or 2008-09, with the earlier year being used for certain participation-driven programs.

*Routine Maintenance Contributions* — Local educational agencies were proposed to reduce the amount that districts must deposit into a restricted routine maintenance account for the 2008-09 through 2012-13 fiscal years, from 3% of General Fund expenditures to 1%.

*Deferred Maintenance Requirement* — The requirement that districts set aside .5% of their revenue limit funding for deferred maintenance was suspended for the 2008-09 to 2012-13 fiscal years.

The complete Proposed 2011-12 Budget is posted by the California Department of Finance website at [www.ebudget.ca.gov](http://www.ebudget.ca.gov). This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

***LAO Overview of Proposed 2011-12 Budget.*** The LAO released its report on the 2010-11 Proposed State Budget entitled “2011-12 Budget: Overview of the Governor’s Budget” on January 12, 2011 (the “2011-12 Budget Overview”) in which the LAO agreed that the \$25.4 billion State budget shortfall estimated in the Proposed 2011-12 Budget was a reasonable estimate. In the 2011-12 Budget Overview, the LAO concurs with the Governor that the major reasons for the current State budget shortfall include the inability of the State to achieve certain previous budget measures, the expiration of various one-time and temporary budget measures approved in recent years, and the failure of the State to obtain significant additional federal funding for key programs.

Generally, the 2011-12 Budget Overview recognizes that the Proposed 2011-12 Budget includes proposals impacting nearly every area of the fiscal year 2011-12 State budget and that the Proposed 2011-12 Budget is a good starting point for legislative deliberations, recognizing that the focus on multiyear and ongoing measures are necessary to make substantial improvements in the State’s budgetary situation. The 2011-12 Budget Overview supports the extension of the four temporary tax increases adopted in February 2009 to voters in a June 2011 special election and to the restructuring of the state local relationship in the delivery of services by shifting funding and responsibility to local governments for those services. The 2011-12 Budget Overview responds favorably to the Proposed 2011-12 Budget

proposals to “realign” state and local program responsibilities and to the proposed changes in local economic development efforts. Nonetheless, the LAO believes there are significant risks in the Proposed 2011-12 Budget, especially in the context of the realignment and redevelopment proposals which involve many unresolved legal, financial and policy issues. The 2011-12 Budget Overview concludes that the State Legislature will have to make difficult decisions on both its spending and tax commitment and that the Proposed 2011-12 Budget also presents an opportunity to reorder state and local government functions to improve the delivery of public services.

The 2011-12 Budget Overview recognizes that, while the Proposed 2011-12 Budget includes revenue proposals resulting in a \$2 billion increase in the Proposition 98 minimum funding guarantee for schools above its current-law level, the Proposed 2011-12 Budget would result in a small programmatic funding decline for K-12 schools and significant reductions for community colleges and child care programs. The 2011-12 Budget Overview also suggests that \$128 million of the anticipated Proposition 98 savings included in the Proposed 2011-12 Budget cannot be realized and that the assumed \$74 million in savings due to the sunset of the Special Disabilities Adjustment program could violate federal maintenance of effort requirements. In addition, the 2011-12 Budget Overview recommends that the State Legislature could consider a different combination of policy changes to realize child care savings. With respect to community college funding, the 2011-12 Budget Overview supports the Proposed 2011-12 Budget proposal to increase community college fees.

The 2011-12 Budget Overview is posted by the Office of the Legislative Analyst at [www.lao.ca.gov](http://www.lao.ca.gov). This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

***Future State Budgets.*** Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. The State Legislature failed to pass a State budget for fiscal year 2010-11 until October 8, 2010. Accordingly, State payments were held until the 2010-11 State Budget was adopted, including those scheduled to be made to school districts under Proposition 98 and receipt of State categorical funds by the District were delayed until the State budget was adopted for the 2010-11 fiscal year. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the Participants cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the District’s budget, it will be necessary for the District’s staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor’s May Revision for that year, and determine whether the District’s budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

The District cannot predict whether the State will continue to encounter budgetary difficulties in the current or future fiscal years. The District also cannot predict the impact future State Budgets will have on District finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the District cannot control.

**In addition, the District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the District budget or operations.**

### **Litigation Challenging State Funding of Education**

On May 20, 2010, more than 60 individual students and their respective families, nine California school districts, the California Congress of Parents Teachers & Students, the Association of California School Administrators, and the California School Boards Association filed a complaint for declaratory and injunctive relief, entitled *Maya Robles-Wong, et al. v. State of California, et al.*, (the "Robles Complaint") in the Alameda County Superior Court. The Robles Complaint alleges, among other things, that the State's current system of funding public education is not designed to support core education programs and that the State has failed to meet its constitutional duties to maintain and support a system of common schools. The Robles Complaint further alleges that the State's system for funding education is not rationally or demonstrably aligned with the goals and objectives of the State's prescribed educational program, and the costs of ensuring that children of all needs have the opportunity to become proficient in accordance with State academic standards. The Robles Complaint requests that the court enter a permanent injunction to, among other things, require the State to align its school finance system with its prescribed educational program, as well as to direct the defendants to cease operating the existing public school finance system or any other system of public finance that does not meet the requirements of the State Constitution.

The District is not a party to the Robles Complaint. The District cannot predict whether any of the plaintiffs listed in the Robles Complaint will be successful, what the potential remedies would be or the State's response to any such remedies. The District makes no representation with regards to how any final court decision with respect to the Robles Complaint would affect the financial status of the District or the State.

### **Significant Accounting Policies and Audited Financial Statements**

The California State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 school districts. Financial transactions are accounted for in accordance with the California School Accounting Manual. Nigro, Nigro & White, P.C., San Diego, California, serve as independent auditors to the District and excerpts of their report for the Fiscal Year Ended June 30, 2010, are attached hereto as APPENDIX C. The District's auditors have not specifically approved the inclusion of such excerpts herewith.

California Assembly Bill 1200 ("A.B. 1200"), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents' offices and establishing guidelines for emergency State aid apportionments. Many provisions affect District operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the District. Under the provisions of A.B. 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that 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 will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based

on then-current projections. The District currently holds a positive certification from the Contra County Office of Education for its budget submissions.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. For the District's most recent available audited financial statements, see "APPENDIX C."

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

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1, 1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

Property taxes on the unsecured roll are currently due as of the January 1 lien date prior to the commencement of a fiscal year and become delinquent, if unpaid, on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one and one-half percent per month begins to accrue on November 1. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements, bank accounts or possessory interests belonging or assessed to the taxpayer.

## **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “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. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

## **Proposition 98**

*General.* In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual grade kindergarten to 14 (“K-14”) funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding “test” to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment (“COLA”) for the minimum guarantee would be the change in California’s per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

*Calculating Minimum Funding Guarantee.* There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth (“ADA”) and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as “Test 3,” provides an alternative calculation of the funding base in years in which State per-capita General Fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

### **Supplemental Information Concerning Litigation Against the State of California**

In June 1998, a complaint was filed in Los Angeles County Superior Court challenging the authority of the State Controller to make payments in the absence of a final, approved State Budget. The Superior Court judge issued a preliminary injunction preventing the State Controller from making payments including those made pursuant to continuing appropriations prior to the enactment of the State’s annual budget. As permitted by the State Constitution, the Legislature immediately enacted and the Governor signed an emergency appropriations bill that allowed continued payment of various State obligations, including debt service, and the injunction was stayed by the California Court of Appeal, pending its decision.

On May 29, 2003, the California Court of Appeal for the Second District decided the case of *Steven White, et al. v. Gray Davis (as Governor of the State of California), et al.* The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of state funds during a budget impasse only when payment is either (i) authorized by a “continuing appropriation” enacted by the Legislature, (ii) authorized by a self-executing provision of the California Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the California Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. The State Controller has concluded that the provisions of the Education Code establishing K-12 and county office revenue limit funding do constitute continuing appropriations enacted by the Legislature and, therefore, the State Controller has indicated that State payments of such amounts would continue during a budget impasse. However, no similar continuing appropriation has been cited with respect to K-12 categorical programs and revenue limit funding for community college districts, and the State Controller has concluded that such payments are not authorized pursuant to a continuing appropriation enacted by the Legislature and, therefore, cannot be paid during a budget impasse. The California Supreme Court

granted the State Controller's Petition for Review on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court.

On May 1, 2003, with respect to the substantive question, the California Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those state employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act. The Supreme Court also remanded the preliminary injunction issue to the Court of Appeal with instructions to set aside the preliminary injunction in its entirety.

### **The Class Size Reduction Kindergarten-University Public Education Facilities Bond Acts of 2002 and 2004**

*Proposition 47.* The Class Size Reduction Kindergarten - University Public Education Facilities Bond Act of 2002 ("Proposition 47") appeared on the November 5, 2002 ballot as Proposition 47 and was approved by the California voters. This measure authorized the sale and issuance of \$13.05 billion in general obligation bonds for construction and renovation of K-12 school facilities (\$11.4 billion) and higher education facilities (\$1.65 billion). Proposition 47 included \$6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, \$2.9 billion was set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002. The balance of \$3.45 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 50 percent of the costs for acquisition of land and new construction with local revenues. In addition, \$100 million of the \$3.45 billion would be available for charter school facilities. Proposition 47 makes available \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, \$1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of \$1.4 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 40 percent of the costs for reconstruction or modernization with local revenues. Proposition 47 provides a total of \$1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have a large number of pupils relative to the size of the school site. In addition, \$50 million will be available to fund joint-use projects. Proposition 47 also includes \$1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

Proposition 47 represents the second largest general obligation bond measure for school construction and modernization approved by California voters in the last several years. Proposition 1A was previously approved in November 1998 and provided \$6.7 billion of capital funding for schools.

The new buildings and infrastructure constructed by community colleges with the proceeds of Proposition 47 general obligation bonds were selected by the Governor and the Legislature, based upon applications from the college districts.

*Proposition 55.* The Kindergarten-University Public Education Facilities Bond Act of 2004 ("Proposition 55") appeared on the March 2, 2004 ballot as Proposition 55 and was approved by the California voters. This measure authorizes the sale and issuance of \$12.3 billion in general obligation bonds for the construction and renovation of K-12 school facilities (\$10 billion) and higher education facilities (\$2.3 billion). Proposition 55 includes \$5.26 billion for the acquisition of land and construction



of new school buildings. A district would be required to pay for 50 percent of costs with local resources unless it qualifies for state hardship funding.

Proposition 55 makes \$2.25 billion available for the reconstruction or modernization of existing school facilities. Districts would be required to pay 40 percent of project costs from local resources. Proposition 55 directs a total of \$2.44 billion to districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 55 also makes a total of \$50 million available to fund joint-use projects. Proposition 55 includes \$2.3 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates \$690 million to each University of California and California State University campus and \$920 million to California community colleges. The Governor and the Legislature will select specific projects to be funded by the bond proceeds.

### **Proposition 1A**

Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

### **Financial Statements**

The District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board. See "DISTRICT FINANCIAL INFORMATION – The General Fund" for more information regarding the District's financial statements for recent Fiscal Years.

Funds used by the District are categorized as follows:

<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
General Fund	Trust and Agency Funds
Special Revenue Funds	Proprietary Funds
Debt Service Funds	Internal Service Funds
Capital Project Funds	

The General Fund of the District, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the District not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General Fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Chief Financial Officer for the District and audited by independent certified public accountants each year. Excerpts from the District's audited financial statements for the year ending June 30, 2010, are attached hereto as APPENDIX C.

### **Budgets of District**

The fiscal year of the District begins on the first day of July of each year and ends on the 30th day of June of the following year. The District adopts on or before July 1 of each year a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year. See "DISTRICT FINANCIAL INFORMATION – General Fund."

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

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

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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

### **Legislation Implementing Article XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

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

Under Article XIII B of the California State Constitution state and local government entities have an annual “appropriations limit” and are not permitted to spend certain moneys which are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys which are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

### **Unitary Property**

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization (“Unitary Property”), commencing with the 1988-89 fiscal year, will be allocated as follows: (1) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (2) if county-wide revenues generated from Unitary Property are less than the previous year’s revenues or greater than 102% of the previous year’s revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

### **California Lottery**

In the November 1984 general election, the voters of the State approved a Constitutional Amendment establishing a California State Lottery (the “State Lottery”), the net revenues (revenues less expenses and prizes) of which shall be used to supplement other moneys allocated to public education. The legislation further requires that the funds shall be used for the education of pupils and students and cannot be used for the acquisition of real property, the construction of facilities or the financing of research.

Allocation of State Lottery net revenues is based upon the average daily attendance of each school and community college district; however, the exact allocation formula may vary from year to year. In 2009-10, the District budgeted \$4,271,331 in State Lottery aid and has budgeted \$4,352,360 for such

aid in 2010-11. At this time, the amount of additional revenues that may be generated by the State Lottery in any given year cannot be predicted. See “MT. DIABLO UNIFIED SCHOOL DISTRICT - State Budget” herein.

### **Proposition 46**

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

### **Proposition 39**

On November 7, 2000, California voters approved Proposition 39, called the “Smaller Classes, Safer Schools and Financial Accountability Act” (the “Smaller Classes Act”) which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55 percent of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55% voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for “the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities,” (2) a list of projects to be funded and a certification that the school district board has evaluated “safety, class size reduction, and information technology needs in developing that list” and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

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

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for an elementary and high school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. Finally, AB 1908 requires that a citizens’ oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

### **Article XIII C and XIII D of the California Constitution**

On November 5, 1996, an initiative to amend the California Constitution known as the “Right to Vote on Taxes Act” (“Proposition 218”) was approved by a majority of California voters. Proposition 218 added Articles XIII C and XIII D to the State Constitution and requires majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Proposition 218 to include counties. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995, and prior to November 6, 1996 shall continue to be

imposed only if approved by a majority vote in an election held within two years following November 6, 1996. All local taxes and benefit assessments which may be imposed by public agencies will be defined as “general taxes” (defined as those used for general governmental purposes) or “special taxes” (defined as taxes for a specific purpose even if the revenues flow through the local government’s general fund) both of which would require a popular vote. New general taxes require a majority vote and new special taxes require a two-thirds vote. Proposition 218 also extends the initiative power to reducing or repealing local taxes, assessments, fees and charges, regardless of the date such taxes, assessments or fees or charges were imposed, and lowers the number of signatures necessary for the process. In addition, Proposition 218 limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The District has no power to impose taxes except property taxes associated with a general obligation bond election, following approval by 55% or 2/3 of the District’s voters, depending upon the Article of the Constitution under which it is passed. Under previous law, the District could apply provisions of the Landscape and Lighting Act of 1972 to create an assessment district for specified purposes, based on the absence of a majority protest. Proposition 218 significantly reduces the ability of the District to create such special assessment districts. Any assessments, fees or charges levied or imposed by any assessment district created by the District will become subject to the election requirements of Proposition 218 as described above, a more elaborate notice and balloting process and other requirements.

Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed, and reduces the number of signatures required for the initiative process. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

Proposition 218 has no effect upon the District’s ability to pursue approval of a general obligation bond issue or a Mello-Roos Community Facilities District bond issue in the future, both of which are already subject to a 2/3 vote, although certain procedures and burdens of proof may be altered slightly. The District is unable to predict the nature of any future challenges to Proposition 218 or the extent to which, if any, Proposition 218 may be held to be unconstitutional.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 26 and 98 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, further affecting the District’s revenues or their ability to expend revenues.

## THE CONTRA COSTA COUNTY TREASURY POOL

This section provides a general description of the County's investment policy, current portfolio holdings, and valuation procedures. The information has been prepared by the County Treasurer (the "Treasurer") for inclusion in this Official Statement. Neither the District nor the Underwriter make any representation as to the accuracy or completeness of such information. Further information may be obtained from the office of the Treasurer-Tax Collector of the County of Contra Costa, 1600 Finance Building, Room 100, 625 Court Street, Martinez, California 4553.

The Treasurer manages the County Pool in which certain funds of the County and certain funds of other participating entities are invested pending disbursement (including the Debt Service Fund of the District). Amounts held for the County, school districts and special districts located within the County constitute most of the County Pool. The Treasurer is the *ex officio* treasurer of each of these participating entities, which therefore are legally required to deposit their cash receipts and revenues in the County treasury. Under State law, withdrawals are allowed only to pay for expenses, which have become due. The remaining amounts in the County Pool are not legally required to be maintained in the County Pool and can be withdrawn by the depositors for whom these amounts are held, provided such withdrawals conform to legal mandates and procedures.

Each governing board of school districts and special districts within the County may allow, by appropriate board resolutions, certain withdrawals of non-operating funds for purposes of investing outside the County Pool. Some districts have from time to time authorized the Treasurer to purchase specified investments for certain district funds to mature on predetermined future dates when cash would be required for disbursements.

Funds held in the County Pool are invested by the Treasurer in accordance with State law and the County's investment policy, which is prepared by the Treasurer and approved by the Contra Costa County Board of Supervisors. The District's bond proceeds will be invested at the direction of the District. The Treasurer neither monitors investments for arbitrage compliance, nor does it perform arbitrage calculations. The District will maintain or cause to be maintained detailed records with respect to the applicable proceeds. The current investment policy was adopted by the Board of Supervisors in June 2010. The policy statement sets forth the Treasurer's investment objectives, which are, in order of importance, safety of principal, liquidity, and yield. In addition, the County's investment policy describes the instruments eligible for inclusion in the investment portfolio and the limitations applicable to each type. An Investment Oversight Committee meets quarterly to advise the County on any future changes in investment policy as well as to regularly monitor and report on the investment performance of the County Pool.

As of December 31, 2010, over \_\_\_% or over \$\_\_\_ billion of the County Pool was invested in maturities of less than one year. As of that date, the weighted average maturity of the County Pool was approximately \_\_\_ days. A detailed description of the composition, cost, par value and market value of the County Pool is provided in the following table.

[Remainder of page intentionally left blank]

<u>Type</u>	<u>Par Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percent of Total Cost</u>
A. Investments Managed by Treasurers Office				
U.S. Treasuries (STRIPS, Bills, Notes)				
U.S. Agencies				
Federal Agriculture Mortgage Corp.				
Federal Home Loan Banks				
Federal National Mortgage Assoc.				
Federal Farm Credit Banks				
Federal Home Loan Mortgage Corp.				
Municipal Bonds				
Subtotal				
Money Market Instruments				
Bankers Acceptances				
Repurchase Agreements				
Commercial Paper				
Negotiable Certificates of Deposit				
Corporate Notes				
Time Deposit				
Subtotal				
TOTAL				
B. Investments Managed by Outside Contractors				
Local Agency Investment Fund				
Other				
California Asset Management Program				
Miscellaneous (BNY, Mechanics)				
Wells Fargo Asset Management				
Columbia Management Group				
CalTRUST				
Subtotal				
TOTAL				
C. Cash				
GRAND TOTAL				

## **CONTINUING DISCLOSURE**

The District has covenanted for the benefit of the Owners of the Bonds to provide certain financial information and operating data relating to the District (the “Annual Report”) by not later than 290 days following the end of the District’s fiscal year (currently ending June 30), commencing with the report for the 2010-11 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The District has entered into a Continuing Disclosure Agreement (“Continuing Disclosure Agreement”) for the benefit of the Owners of the Bonds. The Annual Report and each notice of material events will be filed by the District with the Electronic Municipal Markets Access system (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below under the caption “APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

## **LEGAL MATTERS**

The legal opinion of Matt Juhl-Darlington & Associates, Los Angeles, California, Bond Counsel to the District (“Bond Counsel”), attesting to the validity of the Bonds, will be supplied to the original purchasers of the Bonds without charge. A copy of the legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel to the District (“Special Tax Counsel”) will be attached to the Bonds. Bond Counsel, Disclosure Counsel and Special Tax Counsel will receive compensation contingent upon the sale and delivery of the Bonds.

## **TAX MATTERS**

### **Series C Bonds**

***Federal Tax Status.*** In the opinion of Special Tax Counsel, subject, however to the qualifications set forth below, under existing law, the Series C Bonds constitute “qualified school construction bonds” within the meaning of Section 54F of the Internal Revenue Code of 1986, as amended (the “Tax Code”). The District has irrevocably elected to apply the provisions of Section 6431(f) of the Tax Code to the Series C Bonds, and the Series C Bonds are specified tax credit bonds (“Qualified Bonds”) eligible for the credit payable by the federal government under Section 6431(f)(2) of the Tax Code (the “Bond Subsidy Payments”).

The opinions set forth in the preceding sentence are subject to the condition that the District complies with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series C Bonds in order for the Series C Bonds to be treated as Qualified Bonds and continue to be eligible for the Bond Subsidy Payments. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Bond Subsidy Payments and may cause the Series C Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the Series C Bonds. Special Tax Counsel express no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Bond Subsidy Payments by the federal government, nor does Special Tax Counsel express any opinion regarding other federal tax consequences arising with respect to the Series C Bonds.



Interest on the Series C Bonds is not intended to be excluded from gross income for federal income tax purposes, and the holders of the Series C Bonds will not be entitled to any tax credits as a result of their ownership of such Bonds.

**California Tax Status.** In the opinion of Special Tax Counsel, interest on the Series C Bonds is exempt from personal income taxation imposed by the State of California.

**Tax Treatment of Original Issue Discount and Premium.** If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

**Expenditure Period.** In the event the District fails to expend all of certain proceeds of the Series C Bonds for a qualified purpose with respect to the project within the period ending 3 years after the date of issue of the Series C Bonds or such later date if extended by the IRS (the “Expenditure Period”), the District is required to use said unexpended proceeds to redeem all or a portion of the Series C Bonds all in accordance with the requirements of Section 54A(d)(2)(B) of the Tax Code in the time and manner prescribed by the Tax Code. See “THE BONDS – Redemption.”

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

**Circular 230 Disclaimer.** To ensure compliance with requirements imposed by the IRS, Special Tax Counsel informs owners of the Series C Bonds that any U.S. federal tax advice contained in this Official Statement (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Series C Bonds. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

## **Series D Bonds**

**Federal Tax Status.** In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Tax Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series D Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Series D Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Tax Code, such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Tax

Code), a deduction for federal income tax purposes is allowed for 80% of that portion of such financial institution's interest expense allocable to interest payable on the Series D Bonds.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series D Bonds. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series D Bonds, or may cause the Series D Bonds to not be "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Tax Code.

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

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

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series D Bonds who purchase the Series D Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

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

**Other Tax Considerations.** Owners of the Series D Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series D Bonds may have federal

or state tax consequences other than as described above. Special Tax Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series D Bonds other than as expressly described above.

*Form of Special Tax Counsel Opinion.* The form of the proposed opinion of Special Tax Counsel relating to the Bonds is attached to this Official Statement as Appendix A-3.

### **LEGALITY FOR INVESTMENT**

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

### **RATING**

Moody's Investors Service ("Moody's") has assigned its underlying municipal bond rating of "\_\_\_" to the Bonds. Such rating reflects only the views of Moody's and an explanation of the significance of such rating may be obtained as follows: Moody's at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, tel. (212) 553-0300. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **UNDERWRITING**

Stone & Youngberg LLC (the "Underwriter") has agreed to purchase the Series C Bonds at the purchase price of \$\_\_\_\_\_ (reflecting the principal amount of the Series C Bonds), at the rates and yields shown on the inside cover hereof.

The Underwriter has agreed to purchase the Series D Bonds at the purchase price of \$\_\_\_\_\_ (reflecting the principal or issue amount of the Bonds plus a net original issue premium in the amount of \$\_\_\_\_\_ less an Underwriter's discount of \$\_\_\_\_\_, bond insurance premium of \$\_\_\_\_\_ and payment of certain costs of issuance in the amount of \$\_\_\_\_\_), at the rates and yields shown on the inside cover hereof.

The Underwriter may offer and sell the Bonds to certain dealers and others at yields other than the yields stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

### **NO LITIGATION**

No litigation is pending concerning the validity of the Bonds, and the District's certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds.

**OTHER INFORMATION**

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution are available upon request from the Mt. Diablo Unified School District, 1936 Carlotta Drive, Concord, California 94519.

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 be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

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

MT. DIABLO UNIFIED SCHOOL DISTRICT

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

**APPENDIX A-1**

**FORM OF BOND COUNSEL OPINION**

[Closing date]

Board of Education  
Mt. Diablo Unified School District  
1936 Carlotta Drive  
Concord, California 94519

Re: \$ \_\_\_\_\_ Mt. Diablo Unified School District General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds- Direct Payment) and \$ \_\_\_\_\_ aggregate principal amount of the District's General Obligation Bonds, 2010 Election, 2011 Series D

---

Ladies and Gentlemen:

We have acted as bond counsel for the Mt. Diablo Unified School District, County of Contra Costa, State of California (the "District"), in connection with the issuance by the District of \$ \_\_\_\_\_ aggregate principal amount of the District's General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds- Direct Payment) and \$ \_\_\_\_\_ aggregate principal amount of the District's General Obligation Bonds, 2010 Election, 2011 Series D (collectively, the "Bonds"). The Bonds are issued pursuant to the Government Code of the State of California (commencing at Section 53506), as amended and that certain resolution adopted by the Board of Education of the District on \_\_\_\_\_, 2011 (the "Resolution"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolution.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution. Our services as such bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District and the County as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolution and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy

of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution. We call attention to the fact that the rights and obligations under the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors, rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security for the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding obligations of the District, payable as to both principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.

2. The Resolution has been duly adopted and constitutes a valid and binding obligation of the District.

We express no opinion with respect to any federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

Respectfully submitted,

APPENDIX A-2

FORM OF SERIES C SPECIAL TAX COUNSEL OPINION

\_\_\_\_\_, 2011

Board of Education  
Mt. Diablo Unified School District  
1936 Carlotta Drive  
Concord, California 92780

**OPINION:** \$ \_\_\_\_\_ Mt. Diablo Unified School District (Contra Costa County, California)  
General Obligation, 2010 Election, 2011 Series C (Federally Taxable Qualified  
School Construction Bonds – Direct Payment)

Members of the Board of Education:

We have acted as special tax counsel to the Mt. Diablo Unified School District (the “District”) in connection with the issuance by the District, of the above-captioned bonds (the “Series C Bonds”). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we deem necessary to render this opinion.

The Series C Bonds are issued pursuant to a resolution (the “Resolution”) of the Board of Education of the District adopted on \_\_\_\_\_, 2011. Regarding questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the accuracy of the final approving opinion relating to the Series C Bonds (the “Bond Counsel Opinion”) of Matt Juhl Darlington & Associates, Bond Counsel, as to the matters covered in the Bond Counsel Opinion. We note that the Bond Counsel Opinion is subject to a number of qualifications and limitations. Failure of any of the matters covered in the Bond Counsel Opinion to be true may result in a delay or forfeiture of all or a portion of the Bond Subsidy Payments (described below) and may cause the Series C Bonds to cease to be treated as a Qualified Bond either prospectively from the date of determination or retroactively to the date of issuance of the Series C Bonds.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Series C Bonds are “Qualified School Construction bonds”, as that term is defined in Section 54F of the Internal Revenue Code of 1986, as amended (the “Tax Code”). The District has irrevocably elected to apply the provisions of Section 6431(f) of the Tax Code to the Series C Bonds, and the Series C Bonds are specified tax credit bonds (“Qualified Bonds”) eligible for the credit payable to the District by the Federal government under Section 6431(f) of the Tax Code (the “Bond Subsidy Payments”). The opinions set forth in the preceding sentences are subject to the condition that the District complies with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Series C Bonds in order for the Series C Bonds to be treated as Qualified Bonds and to continue to be

eligible for the Bond Subsidy Payments. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Bond Subsidy Payments and may cause the Series C Bonds to cease to be treated as Qualified Bonds either prospectively from the date of determination or retroactively to the date of issuance of the Series C Bonds. The interest on the Series C Bonds is not intended to be excludable from gross income for federal income tax purposes. We express no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Bond Subsidy Payments by the Federal government, nor do we express any opinion regarding other federal tax consequences arising with respect to the Series C Bonds.

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

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

To ensure compliance with requirements imposed by the IRS, we inform the owners of the Series C Bonds that any U.S. federal tax advice contained herein for the Bonds (including any attachments) (a) was not intended or written to be used and cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer and (b) was written to support the promotion or marketing of the Series C Bonds. Each taxpayer should seek advice based on that taxpayer's particular circumstances from an independent tax advisor.

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

Respectfully submitted,

*Jones Hall,*  
A Professional Law Corporation



**APPENDIX A-3**

**FORM OF SERIES D SPECIAL TAX COUNSEL OPINION**

\_\_\_\_\_, 2011

Board of Education  
Mt. Diablo Unified School District  
1936 Carlotta Drive  
Concord, California 92780

**OPINION:**     \$ \_\_\_\_\_ Mt. Diablo Unified School District (Contra Costa County, California)  
General Obligation, 2010 Election, 2011 Series D

Members of the Board of Education:

We have acted as special tax counsel to the Mt. Diablo Unified School District (the "District") in connection with the issuance by the District, of the above-captioned bonds (the "Series D Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we deem necessary to render this opinion.

The Series D Bonds are issued pursuant to a resolution (the "Resolution") of the Board of Education of the District adopted on \_\_\_\_\_, 2011. Regarding questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

We have assumed the accuracy of the final approving opinion relating to the Series D Bonds (the "Bond Counsel Opinion") of Matt Juhl Darlington & Associates, Bond Counsel, as to the matters covered in the Bond Counsel Opinion. We note that the Bond Counsel Opinion is subject to a number of qualifications and limitations. Failure of any of the matters covered in the Bond Counsel Opinion to be true may cause the inclusion of interest on the Series D Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series D Bonds.

Based on the foregoing, we are of the opinion that, under existing law:

1.       The interest on the Series D Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Series D Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code"), and, in the case of certain financial institutions (within the meaning of section

265(b)(5) of the Code), a deduction is allowed for 80% of that portion of such financial institutions' interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series D Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series D Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series D Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series D Bonds.

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

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

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

Respectfully submitted,

*Jones Hall,*  
A Professional Law Corporation

## **APPENDIX B**

### **SELECTED INFORMATION REGARDING THE COUNTY OF CONTRA COSTA**

The following information has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District or the Underwriter. The District comprises only a portion of the County of Contra Costa, and the Bonds are only payable from *ad valorem* property taxes levied on property in the District.

#### **County of Contra Costa**

The County of Contra Costa, California (the "County") was incorporated in 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Martinez as the County Seat. It is one of the nine counties in the San Francisco-Oakland Bay Area. The County is the ninth most populous county in California, with its population reaching approximately 1,073,055 as of January 1, 2010.

The County provides services to residents through departments and agencies including the Departments of Building Inspection, Community Development, Economic & Redevelopment, Airports, Flood Control, Parks, and Road and Transportation. Each city within the County provides for local services such as police, fire, water, and various other services normally associated with municipalities.

#### **Government**

The County is governed by a County Administrator and a Board of Supervisors of five members. Each supervisor is responsible for one of five districts within the County.

The County Administrator's Office is responsible for staffing the Board and Board committees, planning and overseeing County operations, and ensuring that Board policies are carried out in the most efficient and service oriented manner.

The duties and responsibilities of the Board of Supervisors include appointing County department heads and employees, providing for the compensation of all County officials and employees, creating officers, boards and commissions as needed, awarding all contracts for Public Works and all other contracts exceeding \$25,000, adopting an annual budget, and supervising the operations of departments and exercising executive and administrative authority through the County government and County Administrator.

#### **Population**

The population of Pleasant Hill, Concord and Walnut Creek, as well as the population in the County for calendar years 2006 through 2010 is presented in the following table.

**CITIES OF PLEASANT HILL, CONCORD AND WALNUT CREEK  
AND THE COUNTY  
Calendar Years 2006 through 2010**

<u>Year</u>	<u>City of Pleasant Hill</u>	<u>City of Concord</u>	<u>City of Walnut Creek</u>	<u>Contra Costa County</u>
2006	33,044	123,371	65,288	1,025,436
2007	32,950	122,896	65,056	1,035,097
2008	33,356	123,693	65,263	1,048,185
2009	33,576	124,703	65,915	1,061,325
2010	33,844	125,864	66,584	1,073,055

Population shown as of January 1<sup>st</sup> of the given year  
Source: California State Department of Finance.

**Employment**

The civilian labor force in the County consists of an average of 526,000 workers as of 2009. The total employment component of the labor force is 471,700. County residents seeking employment averaged 54,300 during 2009.

**CONTRA COSTA COUNTY, CALIFORNIA, AND UNITED STATES**  
**Labor Force, Employment, and Unemployment<sup>(1)</sup>**

<u>Year and Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate<sup>(2)</sup></u>
2005				
Contra Costa County	512,700	487,700	25,000	4.9%
California	17,629,200	16,671,900	957,200	5.4
United States	149,296,000	141,715,000	7,591,000	5.1
2006				
Contra Costa County	515,900	493,800	22,100	4.3
California	17,821,100	16,948,400	872,700	4.9
United States	151,413,000	144,419,000	7,001,000	4.6
2007				
Contra Costa County	519,700	495,400	24,300	4.7
California	18,391,800	17,108,700	969,300	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
Contra Costa County	529,200	496,400	32,700	6.2
California	18,391,800	17,059,600	1,332,300	7.2
United States	154,287,000	145,362,200	8,924,000	5.8
2009				
Contra Costa County	526,000	471,700	54,300	10.3
California	18,250,200	16,169,700	2,080,500	11.4
United States	154,142,000	139,877,000	14,265,000	9.3

<sup>(1)</sup> Data reflects employment status of individuals by place of residence.

<sup>(2)</sup> Unemployment rate is based on unrounded data.

Source: California State Employment Development Department and U.S. Department of Labor.

[Remainder of page intentionally left blank]

## Major Employers Within the County

Although the County is primarily suburban, the County is host to a diverse mix of major employers representing industries ranging from government and health services to diversified manufacturing. The following table lists the County's major employers.

### COUNTY OF CONTRA COSTA MAJOR EMPLOYERS

<u>Employer</u>	<u>No. of Employees</u>	<u>Location</u>	<u>Industry</u>
Chevron Corp	5,000-9,999	San Ramon	Oil Refiners (Manufacturers)
Chevron Global Downstream LLC	1,000-4,999	San Ramon	Petroleum Products (Wholesale)
Contra-Costa Regional Medical Center	1,000-4,999	Martinez	Hospitals
Doctor's Medical Center	1,000-4,999	San Pablo	Hospitals
John Muir Medical Center	1,000-4,999	Walnut Creek	Hospitals
John Muir Medical Center	1,000-4,999	Concord	Hospitals
John Muir Physical Rehab.	1,000-4,999	Concord	Rehabilitation Services
Kaiser Permanente Medical Center	1,000-4,999	Walnut Creek	Clinics
Kaiser Permanente Medical Center	1,000-4,999	Walnut Creek	Hospitals
St. Mary's College of California	1,000-4,999	Moraga	Schools – Universities & Colleges Academic
USS-POSCO Industries	1,000-4,999	Pittsburg	Steel Mills (Manufacturers)
Bank of the West	500-999	Walnut Creek	Banks
Bio-Rad Laboratories Inc	500-999	Hercules	Laboratory
C & H Sugar	500-999	Crockett	Sugar Refiners (Manufacturers)
Concord Naval Weapons Station	500-999	Concord	Federal Government-National Security
Department of Veteran Affairs	500-999	Martinez	Physicians & Surgeons
MuirLab	500-999	Richmond	Laboratories – Medical
Richmond City Offices	500-999	Richmond	Gov. Offices – City, Village & Township
San Ramon Regional Medical Center	500-999	San Ramon	Hospital
Shell Martinez Refinery	500-999	Martinez	Oil Refiners (Manufacturers)
Shell Oil Products Company	500-999	Martinez	Service Stations – Gasoline & Oil
Sutter Delta Medical Ctr.	500-999	Antioch	Hospitals
Tesoro Golden Eagle Refinery	500-999	Pacheco	Oil Refiners (Manufacturers)
VA Outpatient Clinic	500-999	Martinez	Physicians & Surgeons

Source: California Employment Development Department, America's Labor Market Information System Employer Database, 2010 1<sup>st</sup> Edition.

[Remainder of page intentionally left blank]

## Industry

The following table shows the estimated number of labor force by industry group for 2005 through 2009, the most recent data available.

**COUNTY OF CONTRA COSTA  
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT  
ANNUAL AVERAGES  
2005 through 2009 by Class of Work**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Mining	400	500	400	300	
Construction	90,800	92,600	87,000	76,200	
Manufacturing	104,500	103,600	102,500	102,300	
Transportation and Public Utilities	28,400	28,700	28,800	29,300	
Wholesale and Retail Trade	191,000	192,700	193,600	186,700	
Finance, Insurance, and Real Estate	76,200	76,900	73,600	69,200	
Other Services	1,086,400	1,103,200	48,300	48,800	
Government	215,100	217,700	222,400	225,200	
Non Agriculture Total	<u>1,282,100</u>	<u>1,299,900</u>	<u>1,308,800</u>	<u>1,299,200</u>	<u>          </u>

Source: California State Employment Development Department.

## Building Permits

The following table provides a summary of the building permit valuations, and the number of new dwelling units authorized in the County from 2005 through \_\_\_\_\_, 2010. The valuation of non-residential permits includes both private commercial construction and publicly funded, non-tax generating projects.

[Remainder of page intentionally left blank]

**COUNTY OF CONTRA COSTA**  
**Building Permit Valuations**  
**and Number of Dwelling Units**  
**2005 through 2010<sup>(1)</sup>**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>(1)</sup></u>
<u>Valuation<sup>(2)</sup></u>						
Residential	\$1,925,422	\$1,451,820	\$1,216,666	\$661,935	\$504,632	
Nonresidential	392,872	412,505	491,318	459,935	314,305	
Total	<u>\$2,318,294</u>	<u>\$1,864,325</u>	<u>\$1,707,984</u>	<u>\$1,121,870</u>	<u>\$818,937</u>	
<u>Number of New Dwelling Units</u>						
Single Family	5,452	3,310	2,698	985	1,038	
Multiple Family	860	1,178	909	909	163	
Total	<u>6,312</u>	<u>4,488</u>	<u>3,607</u>	<u>1,894</u>	<u>1,201</u>	

<sup>(1)</sup> Data through \_\_\_\_\_, 2010.

<sup>(2)</sup> Valuation in thousands.

Source: Construction Industry Research Board.

**Commercial Activity**

The County has both residential and industrial areas, with major manufacturers which include oil and gas, plastic, metals and furniture. Taxable transactions from 2005 through 2009 are summarized below.

**COUNTY OF CONTRA COSTA**  
**Taxable Retail Sales**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Sales Tax Permits	23,692	23,249	23,181	23,149	21,395
Taxable Sales (in thousands)	\$13,480,075	\$13,867,661	\$14,086,295	\$13,307,681	\$11,883,049

Source: California State Board of Equalization.

**Transportation**

Centrally located in the east bay region of the San Francisco bay area, the County is accessible to major transportation resources including Bay Area Rapid Transit which connects five counties including the San Francisco peninsula, Oakland, Berkeley, Fremont, Walnut Creek, Pleasant Hill, Concord Dublin/Pleasanton, and other cities within and without the County. The County is also in close proximity to Highways 5, 205, 580 and 680 as well as approximately 20 miles east of Oakland International Airport and 30 miles northeast of San Francisco International Airport providing for convenient interstate transportation. The County is also home to two non-commercial airports; Buchanan Field Airport and Byron Airport, located in Concord and Byron, respectively.



## **Education**

The County is comprised of 19 school districts, 5 community colleges, and is both home to and has access to major universities, including California State University, East Bay, University of California, Berkeley, Mills College, San Francisco State University, Golden Gate University, St Mary's College of California and John F. Kennedy University. The District serves approximately one-third of the County and is the largest school district within the County.

## **Community Facilities and Recreation**

The County is home to Mt. Diablo State Park (the "Park"), which was designated a State park in 1921. Within the Park, Mount Diablo has an elevation of 3,849 feet providing a view west across the Golden Gate Bridge to the Farallon islands, southeast to the James Lick Observatory, south to the Santa Cruz mountains, east to the San Joaquin and Sacramento Rivers and north to Mount Saint Helens and Mount Lassen in the Cascades. The Park's 22,000 acres consist mostly of typical central California oak and grassland country with extensive areas of chaparral. Areas of riparian woodland, knobcone pine and coulter pine are also scattered throughout the park. Over 400 species of plants have been identified within the park as well as abundant wildlife including deer, raccoons, gray fox, bobcat, mountain lions and striped and spotted skunks. The Park provides guided hiking, rock climbing horseback riding, biking, camping and picnic facilities for visitors.

The County also contains numerous local parks and recreation facilities including Lefty Gomez Recreation Building and Ball Field Complex, an 11 acre park with ball fields, tennis courts, playground equipment, picnic and barbecue facilities and a community center, Montalvin Park, a seven acre community park with a basketball court, a tennis court and picnic facilities, MonTaraBay Park Community Center and Ball Field Complex, a four acre complex with a ball field and community center and Rodeo Creek Trail, a two and a half mile trail with indigenous trees, shrubs, grasses and wildflowers.

**APPENDIX C**

**MT. DIABLO UNIFIED SCHOOL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2010**

## APPENDIX D

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the Mt. Diablo Unified School District (the “District”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the District’s General Obligation Bonds, 2010 Election, 2011 Series C (Federally Taxable Qualified School Construction Bonds - Direct Payment) and \$\_\_\_\_\_ aggregate principal amount of the District’s General Obligation Bonds, 2010 Election, 2011 Series D (collectively, the “Bonds”). The Bonds are being issued pursuant to a Resolution adopted by the Board of Education of the District on \_\_\_\_\_, 2011 (the “Resolution”). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Resolution.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist Stone & Youngberg LLC (the “Underwriter”) in complying with Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Resolution, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

“Bondholder” or “Holder” means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

“Dissemination Agent” shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent or Assistant Superintendent, Administrative Services (or otherwise by the District), which Agent has evidenced its acceptance in writing. Initially, and in the absence of the specific designation of a successor or alternate Dissemination Agent, the Dissemination Agent shall be the District.

“Listed Event” means any of the events listed in Section 6 of this Disclosure Agreement.

“Material Events Disclosure” means dissemination of a notice of a Material Event as set forth in Section 6.

“MSRB” shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at <http://emma.msrb.org/>, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated \_\_\_\_\_, 2011 (“Final Official Statement”).

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 290 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2011, to provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding Fiscal Year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to the MSRB as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District's preceding Fiscal Year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) General fund budget and actual results;

(ii) Assessed valuations;

(iii) Largest local secured taxpayers; and

(iv) Secured tax charges and delinquencies, only if the County terminates or discontinues the Teeter Plan within the District.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which

have been submitted to each of the Repositories or to the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Significant Events.

(a) The District agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) Business Days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.
- (iv) Substitution of or failure to perform by any credit provider.
- (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
- (vi) Tender Offers;
- (vii) Defeasances;
- (viii) Rating changes;
- (ix) Bankruptcy, insolvency, receivership or similar event of the obligated person; or
- (x) The expenditure of 100% of the proceeds of the Series C Bonds.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten (10) Business Days after the occurrence of the event:

- (i) Unless described in paragraph 6(a)(v) hereof, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
- (ii) Modifications of rights to Bondholders;
- (iii) Optional, unscheduled or contingent Bond calls;
- (iv) Release, substitution or sale of property securing repayment of the Bonds;
- (v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) Appointment of a successor or additional Paying Agent or Trustee or the change of name of a Paying Agent or Trustee.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the District shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the

performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions, provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to each NRMSIR or to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: \_\_\_\_\_, 2011

MT. DIABLO UNIFIED SCHOOL DISTRICT

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



EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Mt. Diablo Unified School District

Name of Issue: \$\_\_\_\_\_ General Obligation Bonds, 2010 Election, 2010 Series C (Federally Taxable Qualified School Construction Bonds - Direct Payment)

Date of Issuance: \_\_\_\_\_, 2011

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated \_\_\_\_\_, 2011. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

[ISSUER/DISSEMINATION AGENT]

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

## APPENDIX E

### BOOK-ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy 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 (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

#### **General**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

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

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

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

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

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

Principal, Maturity Value, premium, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Maturity Value, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

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

### **Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the payment, transfer and exchange of the Bonds.

The principal, Maturity Value of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in San Francisco, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least \$1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in San Francisco, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.

**APPENDIX F**

**TABLE OF ACCRETED VALUES**