HDW – 8/11/25
Draft

Attachment 4a

APPENDIX A

INFORMATION REGARDING THE PARTICIPANTS

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STATE AND FEDERAL FUNDING OF EDUCATION

Major Revenues

General. The Participants' principal revenues consist of guaranteed State moneys, *ad valorem* property taxes and funds received from the State and federal government in the form of categorical aid under ongoing programs of local assistance. Categorical funds provided by the State and federal government are to be used for specific programs, such as student transportation, class-size reduction and special education, and typically cannot be used for any other purpose. The amount of categorical funding appropriated to a school district may vary significantly from other school districts and yearly.

The Participants also receive revenues from the State attributable to temporary tax increases that are scheduled to expire in Fiscal Year 2030 and from local sources other than property taxes, such as interest income, donations and sales of property. The California lottery is another source of funding for school districts. Every school receives the same amount of lottery funds per pupil from the State; however, these are not categorical funds as they are not for particular programs or children. The initiative authorizing the lottery requires the funds to be used exclusively for the education of pupils and students and no funds are to be spent for acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose.

State funding of school districts, including the Participants, is required by Article XVI of the State Constitution, which requires that from all State revenues, there 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. The State Legislature and the Governor approve the State's authorized appropriations for school districts each fiscal year in connection with the adoption of the State budget act. Proposition 98 (as defined herein) provides the minimum funding formula for school districts. However, the actual appropriations and the timing of such appropriations are subject to, among other things, the estimated amount of State General Fund revenues during the fiscal year and subsequent changes in State law. See "– State Budget Process Related to Funding of Education– Aggregate State Education Funding" herein.

Local Control Funding Formula. As part of the 2013-14 State budget, State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97") was enacted to establish a new system for funding school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF") to replace the revenue limit funding system for determining State apportionments and the majority of categorical program funding. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49). The LCFF consists primarily of base grant, supplemental grant and concentration grant funding that focuses resources based on a school's student demographics. Each school district and charter school will receive a per pupil base grant to support the basic costs of instruction and operations. The implementation of the LCFF began in Fiscal Year 2013-14 and has now been fully implemented. The sum of a school district's adjusted base, supplemental and concentration grants will be multiplied by such district's P-2 average daily attendance ("ADA") for the current or prior year, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable ERT (defined herein) or categorical block grant add-ons, will yield a district's total LCFF allocation. The State will calculate an annual transition adjustment for each school district, equal to such district's proportionate share of appropriations included in the 2013-14 State Budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. As a result, decreases in State revenues may significantly affect appropriations made by the State Legislature to school districts. Most school districts are expected to have the same proportion of their respective funding gaps closed in each year, with funding amount that vary in accordance with the size of each district's funding gap.

The LCFF includes the following components:

- A base grant for each local education agency based on four different grade spans of pupils, K-3, 4-6, 7-8, and 9-12, per unit of ADA. The Fiscal Year 2024-25 adjusted base grant amounts for each grade span are as noted in the table below. These amounts include an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts with students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site so as to continue receiving its adjustment to the K-3 base grant. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during Fiscal Year 2012-13.

- A 20% supplemental grant for students classified as English learners ("EL"), those eligible to receive a free or reduced price meal ("FRPM") and foster youth, to reflect increased costs associated with educating those students.

- An additional concentration grant equal to 65% of an LEA's base grant, based on the number of EL, FRPM, and foster youth served by an LEA, which provides additional funding for districts with unduplicated counts greater than 55% of enrollment.

- An economic recovery target ("ERT") to ensure that almost every LEA receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF. This ERT payment was based on the difference between the amount a school would have received under the old funding system and the amount a district would receive under the LCFF in Fiscal Year 2020–21. To determine this difference, assumptions for the old funding system included: (i) Fiscal Year 2012–13 undeficited revenue limits, or block grant funding for charter schools, with cost-of-living adjustments of 1.57% in 2013–14 and 1.94% each year from Fiscal Year 2014–15 through Fiscal Year 2020–21; and categorical program funding levels restored to the Fiscal Year 2007–08 level. The ERT add-on was to be paid incrementally over the eight-year implementing period of the LCFF. With full implementation of the LCFF, the ERT became a permanent add-on to eligible LEA's LCFF entitlement and funding eligibility is closed to new participants.

Base grants are to be adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. The provision of cost-of-living adjustments ("COLAs") will be subject to appropriation for such adjustment in the annual State budget. The differences among base grants are linked to differentials in Statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The amounts below reflect funding levels used in the LCFF Entitlement calculations.

California School District and Charter School LCFF Entitlement
Base Grant Funding, Education Code Section 42238.02(d)

	A	B	C	D	E
Grade Span	**2023-24 Base Grant per ADA**	**2024-25 Statutory COLA (A*1.07%)**	**2024-25 Base Grant per ADA before Grade Span Adjustments (A+B)**	**Grade Span Adjustments (TK-3: C*10.4% 9-12: C*2.6%)**	**2024-25 Base Grant/ Adjusted Base Grant per ADA (C+D)**
TK/K–3	$9,919	$106	$10,025	$1,043	$11,068
4–6	10,069	108	10,177	N/A	10,177
7–8	10,367	111	10,478	N/A	10,478
9–12	12,015	129	12,144	316	12,460

Source: California Department of Education.

Local Control Funding Formula Gap Funding. Until the LCFF was fully implemented, each school district had a gap between the school district's prior year funding and the target amount of funding under the LCFF for the current year. In order to address this shortfall, the LCFF provided school districts with additional funding based on the percentage of the gap (the "LCFF Gap Funding"). The State provided school districts with the same percentage of LCFF Gap Funding, but the dollar amount of the LCFF Gap Funding varied between school districts. Beginning Fiscal Year 2014-15 and for each fiscal year thereafter, an LEA's funding amount was based on a recalculation of its target amount under the LCFF and technical calculations related to adjustments to its prior year's funding. With the full implementation of the LCFF Fiscal Year 2018-19, the Participants have reached their target funding amounts and no longer receive LCFF Gap Funding.

Federal Revenues

The federal government provides funding for several Participants' programs, including programs that benefit educationally disadvantaged students and students with limited English skills, and that provide other specialized services to students and administration. The Participants cannot predict what actions will be taken in the future by the federal government or the President to address federal budgetary deficits, if any or cash management practices, or the amount of debt that can be issued by the United States Treasury. Future federal budgets will be affected by national and international economic conditions, including economic downturns, and other factors over which the Participants will have no control. To the extent that the federal budget process results in reduced revenues, deferred revenues, or increased expenses for the Participants, the Participants will be required to make adjustments to their respective budget and cash management practices. In such event, the Participants will be required to generate additional revenues, curtail programs or services, or use their respective reserve funds to ensure a balanced budget.

On January 27, 2025, the Office of Management and Budget ("OMB") issued a memorandum directing federal agencies to temporarily pause all activities related to the obligation or disbursement of federal financial assistance, and other relevant activities, that may be implicated by recent executive orders issued under the Trump Administration. On January 29, 2025, OMB rescinded the memorandum. Following the rescission, the White House press secretary noted that the recission of the memorandum was "[not] a recission of the federal funding freeze." The U.S. Department of Education released a letter, dated February 14, 2025, notifying schools and colleges to eliminate diversity, equity, and inclusion programs and initiatives by the end of the month or risk losing federal funding. In connection with the funding freeze, the various county offices of education lost funding due to the recent termination of a grant program for teacher training. Certain of the Participants would have received a portion of such funds.

Certain of the Participants have also been impacted by the U.S. Department of Agriculture's recent cancellation of the Local Food for Schools Cooperative Agreement Program for 2025. Federal funding may be further impacted by the executive order signed by President Trump on March 20, 2025 to begin dismantling the U.S. Department of Education. No assurance can be given that the Participants will not be materially impacted of such change and related actions.

State Budget Process Related to Funding of Education

General. As is true for all school districts in California, operating income of each Participant consists primarily of two components: a State portion funded from the State General Fund (including amounts funded from the EPA within the State General Fund) and a local portion derived from each Participant's share of the 1% local *ad valorem* property tax authorized by the State Constitution. School districts may be eligible for other special categorical funding, including for State and federal programs. As a result, decreases in State revenues or in State legislative appropriations made to fund education, may significantly affect the operations of the Participants.

According to the State Constitution, the Governor of the State is required to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a two-thirds vote of each house of the State Legislature no later than June 15 of each year, although this deadline is routinely breached. The State's budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. On May 29, 2002, the State Court of Appeal held in *White v. Davis* (also referred to as *Jarvis v. Connell*) that the State Controller cannot disburse State funds after the beginning of the Fiscal Year until the adoption of the budget bill or an emergency appropriation, unless the expenditure is: (1) authorized by a continuing appropriation found in statute, (2) mandated by the Constitution (such as appropriations for salaries of elected State officers), or (3) mandated by federal law (such as payments to State workers at no more than minimum wage). The court specifically held that the State Constitution does not mandate or otherwise provide for appropriations for school districts without an adopted budget. Nevertheless, the Controller believes that statutory implementation of the constitutional school funding formula provides for a continuing appropriation of State funding for schools, and has indicated that payment of such amounts would continue during a budget impasse. Special and categorical funds would not be appropriated until a budget or emergency appropriation is adopted. The Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website: www.sco.ca.gov. Should the State Legislature fail to pass the budget or emergency appropriation before the start of any Fiscal Year, the Participants might experience delays in receiving certain expected revenues. The Participants are authorized to borrow temporary funds to cover their respective annual cash flow deficits, and as a result of the *White* decision, the Participants might find it necessary to increase the size or frequency of their cash flow borrowings, or to borrow earlier in the Fiscal Year.

State income tax, sales tax, and other receipts can fluctuate significantly from year to year, depending on economic conditions in the State and the nation. Because funding for education is closely related to overall State income, as described in this section, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. Brief descriptions of the adopted State Budget for Fiscal Year 2024-25 and the Proposed State Budget for 2025-26 (including the May Revision thereto) are included below. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget". An impartial analysis of the budget is posted by the State's Legislative Analyst's Office ("LAO") at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts within the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information contained in the websites referred to herein is prepared by the respective State agency maintaining each website and not by the Participants. The Participants have not independently reviewed the information in these websites and the Participants take no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by those references.

Aggregate State Education Funding. Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution) ("Proposition 98"), a minimum level of funding is guaranteed (the "Proposition 98 Guarantee") to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs for kindergarten through grade 14 (K through 14).

The guaranteed funding amount for K through 14 education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State General Fund tax proceeds and is not based on the State General Fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given Fiscal Year's budget, from the Governor's initial budget proposal to actual expenditures, as the various factors change. Over the long run, the guaranteed amount will increase as enrollment and per-capita personal income grow. On average, about 40 percent of State General Fund tax proceeds are spent on the State's share of Proposition 98 funding.

The Proposition 98 Guarantee may be suspended for one year at a time by enactment of an urgency statute. In subsequent years in which State General Fund revenues are growing faster than personal income (or sooner, as the State Legislature may determine), the funding level must be restored to the guaranteed amount. However, the amount of underfunding during suspension of Proposition 98 Guarantee will result in permanent savings to the State.

When State General Fund revenues have failed to reach budgeted levels, the State has implemented a number of retroactive funding adjustments and deferrals within and across fiscal years, distorting funding over many years, making cross-year comparisons difficult, and making short- and long-term budgeting difficult for school and community college districts. In several years in the early 1990s, as the State's economy was sliding into a recession, the State's budgeted allocations for school and community college districts proved to be more than the Proposition 98 Guarantee would have required. The excess amounts were later treated by the State as advances to K through 14 education against subsequent years' Proposition 98 Guarantee, resulting in aggregate funding reductions of over $1 billion in those subsequent years. In Fiscal Years 2003-04, 2004-05 and 2008-09, the worsening State financial position again resulted in retroactive adjustments as well as current-year cuts. LAO reported that legislative actions in mid-Fiscal Year 2002-03 eliminated $2.5 billion from budgeted Proposition 98 funding through a combination of deferral of expenditures to Fiscal Year 2003-04, use of one-time funds, captured program savings, and other cuts. In general, deferral of education expenditures and reductions in the components of Proposition 98 funding have the effect of reducing the base from which the Proposition 98 Guarantee is calculated in the future. Legislation enacted in March 2003 permanently defers the apportionment of Proposition 98 funds, scheduled each year for June, to each July 2, and thereby deferring apportionment from one Fiscal Year to the next. These and other techniques significantly reduced the amount of the Proposition 98 Guarantee for Fiscal Years 2003-04 and subsequent fiscal years. See "State and Federal Funding of Education" herein for information regarding additional deferred apportionments.

State Budget for Fiscal Year 2024-25. On June 29, 2024, Governor Newsom signed into law the Fiscal Year 2024-25 State Budget (the "2024-25 Budget"). The 2024-25 Budget totals approximately

$297.8 billion, including $211.5 billion of general fund spending. The 2024-25 Budget acknowledges that the State experienced significant revenue volatility, and a tax filing delay by the Internal Revenue Service (with a conforming State delay) affecting over 99 percent of the State's tax filers, that eventually led to a clouded State revenue forecast. The 2024-25 Budget estimates that the State is facing an approximate $46.8 billion deficit. The 2024-25 Budget withdraws funds from the Budget Stabilization Account (the "Rainy Day Fund"), but does so over two Fiscal Years, assuming the use of approximately $5.1 billion in Fiscal Year 2024-25 and approximately $7.1 billion in Fiscal Year 2025-26. The 2024-25 Budget also withdraws $900 million from the Safety Net Reserve to maintain program benefits and services for the Medi-Cal and CalWORKs programs. The 2024-25 Budget reflects $22.2 billion in budgetary reserves at the end of Fiscal Year 2024-25, which include: $17.6 billion in the Rainy Day Fund for fiscal emergencies; $1.1 billion in the Public School System Stabilization Account ("PSSSA") (the "rainy-day" fund used to lessen the impact of State revenue volatility on K-12 schools and community colleges); and $3.5 billion in the State's operating reserve, the Special Fund for Economic Uncertainties. To address the remaining deficit, and in addition to the use of reserves ($6 billion), the 2024-25 Budget includes a mix of broad-based solutions including reductions ($16 billion), additional revenue sources and internal borrowing ($13.6 billion), fund shifts ($6 billion), delayed spending ($3.1 billion) and deferrals ($2.1 billion).

K-12 Funding and Proposition 98 Guarantee. The 2024-25 Budget includes total funding of $133.8 billion ($81.5 billion General Fund and $52.3 billion other funds) for all K-12 education programs. The 2024-25 Budget reflects significant Proposition 98 funding that enables increased support for core programs such as the LCFF, special education, transitional kindergarten, nutrition, and preschool. Proposition 98 funding for Fiscal Year 2024-25 is approximately $115.3 billion ($82.6 billion General Fund) for K-12 public schools and community college districts.

The 2024-25 Budget suspends the Proposition 98 guarantee in Fiscal Year 2023-24 creating a maintenance factor obligation of approximately $8.3 billion in Fiscal Year 2023-24 and is projected to result in a $4.1 billion maintenance factor payment in Fiscal Year 2024-25, which will be paid in addition to the Proposition 98 guarantee level in Fiscal Year 2024-25. The 2024-25 Budget projects the Proposition 98 guarantee to be in "Test 1" in Fiscal Year 2024-25. In "Test 1" years, the Proposition 98 guarantee is equal to the percentage of general fund revenues appropriated for K-14 schools in the 1986-87 Fiscal Year. To accommodate enrollment increases related to the expansion of transitional kindergarten, the 2024-25 Budget rebenches the Test 1 percentage, from approximately 38.6 percent to approximately 39.2 percent, to increase the percentage of general fund revenues obligated to the Proposition 98 guarantee. The 2024-25 Budget reflects revised Proposition 98 funding levels of $103.7 billion in Fiscal Year 2022-23, $98.5 billion in Fiscal Year 2023-24, and $115.3 billion in Fiscal Year 2024-25. Of the $103.7 billion in Fiscal Year 2022-23, the 2024-25 Budget accrues approximately $6.2 billion of the State's General Fund costs to the 2026-27 through 2035-36 Fiscal Years for budgetary and financial reporting purposes.

Rainy Day Fund. The 2024-25 Budget reflects a total balance of $8.4 billion in the PSSSA at the end of Fiscal Year 2022-23 and reflects the withdrawal of this balance in Fiscal Year 2023-24. The 2024-25 Budget also reflects a roughly $1.1 billion discretionary payment into the PSSSA in Fiscal Year 2024-25, leaving a balance in the account of $1.1 billion. Under current law, there is a cap of 10 percent on school district reserves in Fiscal Years immediately succeeding those in which the balance in the account is equal to or greater than 3 percent of the total K-12 share of the Proposition 98 guarantee. Because there is no ending balance in the account in Fiscal Year 2023-24 and a balance of $1.1 billion in Fiscal Year 2024-25, school district reserve caps would not be triggered in Fiscal Year 2024-25 and are not projected to be triggered in Fiscal Year 2025-26.

Local Control Funding Formula. The 2024-25 Budget provides an LCFF COLA of 1.07%, that when combined with population growth adjustments, increases funds available to local educational agencies

("LEAs") by approximately $983 million. The 2024-25 Budget also reflects the utilization of approximately $5.3 billion one-time Proposition 98 General Fund to support the overall costs of the LCFF in Fiscal Year 2023-24, and uses available reappropriation and reversion funding of $253.9 million to support the overall costs of the LCFF in Fiscal Year 2024-25.

Deferrals. The 2024-25 Budget reflects LCFF apportionment deferrals from Fiscal Year 2023-24 to Fiscal Year 2024-25 of approximately $3.6 billion and from Fiscal Year 2024-25 to Fiscal Year 2025-26 of approximately $246 million. Additionally, the 2024-25 Budget reflects approximately $2.3 billion in categorical program deferrals from Fiscal Year 2022-23 to Fiscal Year 2023-24, with the deferred categorical amount being repaid using PSSSA resources.

Other significant features of the 2024-25 Budget affecting K-12 public schools include the following:

- ***Learning Recovery Emergency Block Grant***. The 2024-25 Budget focuses the use of allocated but unexpended Learning Recovery Emergency Block Grant funds on actions to address the needs of students most impacted by learning loss, based on an assessment of needs, and incorporates the use of these funds into the existing LCAP development process. The 2024-25 Budget also clarifies that the allowable uses of the Learning Recovery Emergency Block Grant include professional development aligned to the new Mathematics Framework and the English Language Arts/English Language Development Framework.

- ***Employee Protections***. The 2024-25 Budget includes a suspension of the August 15, 2024, layoff window for certificated and classified staff.

- ***Instructional Continuity and Attendance Recovery***. The 2024-25 Budget includes $4 million one-time Proposition 98 General Fund monies to research existing, and develop new models of hybrid and remote learning to support students' attendance, including developing and disseminating guidance and resources for LEAs to develop their own hybrid and remote learning programs to enable instructional continuity. The 2024-25 Budget includes statutory changes to allow LEAs to provide attendance recovery opportunities to students to make up lost instructional time, thereby offsetting student absences, and mitigating learning loss, as well as related fiscal impacts to LEAs. For example, the budget beginning in Fiscal Year 2025-26, allows LEAs to add up to 10 days of attendance recovery time per pupil to the attendance data submitted to the California Department of Education (CDE) for funding purposes (Average Daily Attendance reporting).

- ***Teacher Professional Development and Preparation.*** To further expand the State's educator training infrastructure, the 2024-25 Budget provides $25 million one-time Proposition 98 General Fund monies to support necessary costs, including training for educators to administer literacy screenings to meet the requirement to screen students in kindergarten through second grade for risk of reading difficulties, including dyslexia, by the 2025-26 school year. Additionally, to encourage more well-prepared individuals to enter the field of teaching, the Budget includes statutory changes to recognize the completion of a bachelor's degree as satisfying the basic skills requirement for a credential and to improve transcript review to certify subject matter competency.

- ***Early Education***. The 2024-25 Budget includes the following for State Preschools and Transitional Kindergarten:

- State Preschool. $53.7 million General Fund monies to support reimbursement rate increases previously supported by available one-time federal stimulus funding; one-time savings of $190.7 million General Fund monies and $522.3 million Proposition 98 General Fund monies, aligning with levels of support necessary for CDE to meet preschool collective bargaining agreement requirements; authorizes California State Preschool Program providers to serve two-year-old children, in addition to three and four-year old children, until June 30, 2027; maintains that the California State Preschool Program continue to require providers to reserve 5 percent of funded enrollment for children with disabilities, however, the 2024-25 Budget suspends provisions to increase this requirement to 7.5 percent in Fiscal Year 2025-26 and 10 percent in Fiscal Year 2026-27; and provides authority for the CDE to develop and implement a streamlined request for application process to award new State Preschool slots to existing providers.

- Transitional Kindergarten. $988.7 million Proposition 98 General Fund monies to support the second year (the 2023-24 school year) of expanded eligibility for transitional kindergarten, shifting age eligibility from all children turning five-years-old between September 2 and February 2 to all children turning five-years-old between September 2 and April 2 (roughly 36,000 additional children); $390.2 million Proposition 98 General Fund monies to support the second year of adding one additional certificated or classified staff person to every transitional kindergarten class; $1.5 billion ongoing Proposition 98 General Fund monies to support the third year (the 2024-25 school year) of expanded eligibility for transitional kindergarten, shifting age eligibility from all children turning five between September 2 and April 2 to all children turning five-years-old between September 2 and June 2 (roughly 38,000 additional children); and $515.5 million ongoing Proposition 98 General Fund monies to support the third year of adding one additional certificated or classified staff person to every transitional kindergarten class.

- ***Addressing the 2024-25 Budget shortfall***. Solutions to the 2024-25 Budget shortfall include:

  - School Facility Program. Forgoes a planned investment of $875 million to support the School Facility Program.

  - California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program. Forgoes a planned investment of $550 million to support the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program.

  - Zero-Emission School Buses. Forgoes a planned $500 million one-time Proposition 98 General Fund monies investment in Fiscal Year 2024-25 to support greening school bus fleets through programs operated by the California Air Resources Board and the California Energy Commission.

- ***The Arts and Music in Schools: Funding Guarantee and Accountability Act (Proposition 28)***. $907.1 million to support the Arts and Music in Schools: Funding Guarantee and Accountability Act in Fiscal Year 2024-25.

- ***Categorical Program Cost-of-Living Adjustments***. $89.2 million ongoing Proposition 98 General Fund monies to reflect a 1.07-percent cost-of living adjustment for specified categorical programs.

- ***Nutrition***. An additional $179.4 million ongoing Proposition 98 General Fund monies and an additional $120.8 million one-time Proposition 98 General Fund monies to fully fund the universal school meals program in the 2023-24 and 2024-25 Fiscal Years.

- ***Classified School Employee Summer Assistance Program***. $9 million one-time Proposition 98 General Fund monies for the Classified School Employee Summer Assistance Program, which provides supplemental pay for classified staff during intersessional months when they are not employed.

- ***Curriculum-Embedded Performance Tasks for Science***. $7 million one-time Proposition 98 General Fund monies to support inquiry-based science instruction and assessment through the development of a bank of curriculum-embedded performance tasks.

- ***California Teachers Collaborative for Holocaust and Genocide Education***. $5 million one-time Proposition 98 General Fund monies to support the California Teachers Collaborative for Holocaust and Genocide Education.

- ***After School Education and Safety Programs***. $5 million one-time General Fund monies for Save the Children, which supports after school programs in rural districts.

- ***State Special Schools Infrastructure Support***. $3.4 million General Fund monies, of which $380,000 is ongoing, to replace critical servers, maintain warranty coverage for network infrastructure, and refresh laptops, tablets, and workstations for students and staff at the State Special Schools (Deaf Education, School for the Blind and Schools for the Deaf) and Diagnostic Centers.

- ***K-12 High Speed Network***. $3.2 million ongoing Proposition 98 General Fund monies to support the K-12 High Speed Network program.

- ***Student Friendly Services***. $2.1 million ongoing Proposition 98 General Fund monies to support the California College Guidance Initiative.

- ***Inclusive College Technical Assistance Center***. $2 million ongoing Proposition 98 General Fund monies to establish a Technical Assistance Center to:

    - Assist LEAs with the development and submittal of federal comprehensive transition and postsecondary program applications, so that students can apply for the Free Application for Federal Student Aid.

    - Facilitate collaboration between LEAs and institutions of higher education to support students, including those with intellectual disabilities, and their parents to plan for postsecondary transition.

    - Assist LEAs with the identification of potential funding sources and student financial assistance opportunities.

- ***Mental Health***. The 2024-25 Budget includes statutes to better equip school staff with the tools needed to recognize and offer appropriate mental health supports to students in a way that is aligned with other State investments in this area, including professional development opportunities.

Proposed State Budget for Fiscal Year 2025-26. Governor Newsom released his Proposed 2025-26 State Budget (the "Proposed 2025-26 Budget") on January 10, 2025. The Proposed 2025-26 Budget totals approximately $322.2 billion, led by stronger economic performances than those projected in the 2024-25 Budget that results in an upgraded revenue forecast of approximately $16.5 billion in the three-year budget window. The Proposed 2025-26 Budget is largely dependent on personal income taxes, and specifically, an increase in capital gains realizations. Although the Proposed 2025-26 Budget is balanced and provides for reserves in the coming fiscal year, it anticipated shortfalls in the subsequent fiscal years that are driven by expenditures exceeding revenues.

The Proposed 2025-26 Budget maintains a planned withdrawal of approximately $7.1 billion from the Budget Stabilization Account as provided for in the 2024-25 Budget. In light of the withdrawal from the reserves, the State is projected to end Fiscal Year 2025-26 with available General Fund reserves that include: $10.9 billion in the Budget Stabilization Account (the General Fund's "rainy day" fund) for fiscal emergencies; $1.5 billion in the Public School System Stabilization Account (the "rainy day" fund used to lessen the impact of State revenue volatility on K-14 schools) ("PSSSA"); and $4.5 billion in the Special Fund for Economic Uncertainties, the State's operating reserve.

<u>Proposition 98 Guarantee</u>. Proposition 98 funding for Fiscal Year 2025-26 is approximately $118.9 billion for TK-12 schools and California community colleges. Revised estimates of General Fund revenues result in an increase of approximately $7.5 billion over the three-year period relative to the 2024-25 Budget: $98.5 billion in Fiscal Year 2023-24, $119.2 billion in Fiscal Year 2024-25, and $118.9 billion in Fiscal Year 2025-26. In light of the projected risks, the Proposed 2025-26 Budget proposes a Fiscal Year 2024-25 appropriation of $117.6 billion, instead of the currently calculated level of $119.2 billion intended to mitigate the risk of appropriating more than what is available. The Proposed 2025-26 Budget includes a total funding of $137.1 billion ($83.3 billion in General Fund revenue and $53.8 billion in other funds) for all TK-12 education programs. TK-12 funding per-pupil totals $18,918 in Proposition 98 General Fund monies and $24,764 per-pupil when accounting for all funding sources.

<u>Rainy Day Fund</u>. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the PSSSA is equal to or greater than 3 percent of the total TK- 12 share of the Proposition 98 guarantee. The revised PSSSA of more than $1.2 billion at the end of Fiscal Year 2024- 25 does not trigger school district reserve caps in Fiscal Year 2025-26.

<u>LCFF and Costs of Living Adjustment</u>. The Proposed 2025-26 Budget includes a LCFF COLA of 2.43%, that combined with growth adjustments, result in $2.5 billion in additional discretionary funds for local educational agencies. To fully fund the increase, the Proposed 2025-26 Budget proposes using available reappropriation and reversion funding totaling $25.9 million to support ongoing LCFF costs in Fiscal Year 2023-24 and deferring LCFF funding totaling $35.1 million from Fiscal Year 2023-24 to Fiscal Year 2024-25. This one-time deferral is fully repaid in Fiscal Year 2024-25.

Certain of the proposals included in the Proposed 2025-26 Budget affecting TK-12 schools in California include the following:

- ***California for All Kids***. The Proposed 2025-26 Budget achieves full implementation of universal transitional kindergarten and universal before, after, and summer school for TK-6th grade students. The Proposed 2025- 26 Budget recognizes key achievements that are set to be realized for the 2025-26 school year: schools will B-12 serve nearly 1 billion meals through universal school meals program; all kindergarten through second grade students will be screened for risk of reading difficulties; implementation grants to local educational agencies will be fully disbursed for the California Community Schools Partnership Program to support more than 2,000 of the State's public schools offering community school model that provides integrated educational, health, and mental health services to students with wide range of needs; access to Literacy Roadmap that provides instructional planning guidance to educator's to improve literacy; and participation in the Children and Youth Behavioral Health Initiative Fee Schedule Program, which provides local educational agencies a new mechanism for reimbursement from health plans provided to students under the age of 26.

- ***Universal Transitional Kindergarten***. The Proposed 2025-26 Budget provides a total of $2.4 billion ongoing Proposition 98 General Fund monies (inclusive of all prior years' investments) to support the full implementation of universal transitional kindergarten, so that all children who turn four years old by September 1 of the school year can enroll in transitional kindergarten (providing access to roughly 60,000 additional children). It also provides an additional $1.5 billion ongoing Proposition 98 General Fund monies to support further lowering the average student-to-adult ratio from 12:1 to 10:1 in every transitional kindergarten classroom.

- ***Before School, After School and Summer School***. The 2021 Budget Act projected full fiscal implementation of the Expanded Learning Opportunities Program by Fiscal Year 2025-26. The Expanded Learning Opportunities Program is a multi-year investment plan to implement before, after, and summer school instruction and enrichment for students in grades TK-6, with a focus on local educational agencies with the highest concentrations of low-income students, English learners, and youth in foster care, otherwise known as unduplicated pupils. The Proposed 2025-26 Budget includes $435 million ongoing Proposition 98 General Fund monies (increasing the total program funding to $4.4 billion) to fully implement the program and increases the number of local educational agencies with TK-6th grade that offer universal access to students, from those with an unduplicated pupil percentage of 75 percent to those with 55 percent unduplicated students.

- ***Master Plan for Career Education***. TK-12 Education. The Proposed 2025-26 Budget includes dual enrollment and pathways programs as allowable expenditures for funds allocated through the $1.8 billion Student Support and Discretionary Block Grant. It also provides for an increase of $3 million ongoing Proposition 98 General Fund monies to support the California College Guidance Initiative and the Cradle- to-Career Data System. Additionally, the Proposed 2025-26 Budget directs the Department of Education to examine the feasibility of streamlining applications for TK-12 career technical education programs into a single consolidated application.

- ***Literacy Instruction***. The Proposed 2025-26 Budget includes the following related to the State's English Language Arts/English Language Development ("ELA/ELD") Framework, which is the State's foundational document to guide literacy instruction: $500 million one-time Proposition 98 General Fund monies for TK- 12 Literacy and Mathematics Coaches, which builds upon and expands the existing Literacy Coaches and Reading Specialists Grant Program and includes a new opportunity to support mathematics coaches in addition to literacy coaches; $40 million one-time Proposition 98 General Fund monies in Fiscal Year 2025- 26 to support necessary costs, including purchasing screening materials and training for educators, to administer literacy screenings; $5 million Proposition 98 General Fund monies annually through Fiscal Year 2029-30 to launch a Literacy Network within the Statewide System of Support to serve as a clearinghouse for state-developed literacy resources, elevate high performing districts and best practices, and provide support to select local educational agencies facing persistent performance challenges; and $1.8 billion for the Student Support and Discretionary Block Grant which can fund professional development for teachers on the ELA/ELD Framework and the Literacy Roadmap.

- ***Teacher Preparation and Professional Development***. The Proposed 2025-26 Budget includes $150 million one-time Proposition 98 General Fund monies to provide financial assistance for teacher candidates through the new Teacher Recruitment Incentive Grant Program, and an additional $100 million one-time Proposition 98 General Fund monies to extend the timeline of the existing National Board Certification Incentive Program to support National Board Certified teachers to teach and mentor other instructional staff in high poverty schools.

- ***Student Support and Professional Development Discretionary Block Grant***. The Proposed 2025-26 Budget includes $1.8 billion one-time Proposition 98 General Fund monies for a discretionary block grant to provide local educational agencies with additional fiscal support to address rising costs, as well as fund statewide priorities including: (1) professional development for teachers on the ELA/ELD Framework and the Literacy Roadmap, with a focus on strategies to support literacy for English learners; (2) professional development for teachers on the Mathematics Framework; (3) teacher recruitment and retention strategies; and (4) career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.

- ***Learning Recovery Emergency Block Grant***. The Proposed 2025-26 Budget includes $378.6 million one- time Proposition 98 General Fund monies to support the Learning Recovery Emergency Block Grant to supports local educational agencies in establishing learning recovery initiatives through the 2027-28 school year.

- ***Cost of Living Adjustment***. The Proposed 2025-26 Budget includes $204 million ongoing Proposition 98 General Fund monies to reflect COLA for specified categorical programs, which include Special Education, Child Nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

- ***Kitchen Infrastructure and Training***. The Proposed 2025-26 Budget includes $150 million one-time Proposition 98 General Fund monies for specialized kitchen equipment, infrastructure, and training to support schools in providing more freshly prepared meals made with locally grown ingredients.

- ***Local Property Tax Adjustments***. The Proposed 2025-26 Budget includes $125 million in additional Proposition 98 General Fund monies for school districts and county offices of education in Fiscal Year 2024- 25, and a decrease of $1.5 billion ongoing Proposition 98 General Fund monies for school districts and county offices of education in Fiscal Year 2025-26, resulting from increased offsetting property taxes.

- ***Nutrition***. The Proposed 2025-26 Budget includes $106.3 million in additional ongoing Proposition 98 General Fund monies to fully fund the universal school meals program in Fiscal Year 2025-26.

May Revision to Proposed State Budget for Fiscal Year 2025-26. On May 14, 2025, the Governor released his 2025-26 May Revision to the 2025-26 Proposed State Budget (the "May Revision"). The May Revision projects Fiscal Year 2025-26 State General Fund total available resources of approximately $248.9 billion (including a prior year balance of $34.3 billion) and total expenditures of approximately $226.4 billion, resulting in a year-end surplus of approximately $22.5 billion, of which $18.0 billion would be reserved for the liquidation of encumbrances and $4.5 billion would be deposited in a reserve for economic uncertainties. In addition, the May Revision projects $11.2 billion on deposit in the State's Rainy Day Fund. The May Revision projects that the Safety Net Reserve will have a zero balance in Fiscal Year 2025-26.

Certain of the proposals included in the May Revision affecting TK-12 schools in California include the following:

[To come.]

Legislative Analyst's Overview of the May Revision. Beginning on May 17, 2025, the Legislative Analyst's Office (the "LAO") released a series of analyses of the May Revision, including a report entitled "The 2025-26 Budget: Analysis of the May Revision K-14 Education Plan," dated May 20, 2025. The LAO states that the May Revision expands programs despite weaker revenues and an uncertain economy and creates a structural deficit in the Proposition 98 budget (i.e., the May Revision uses $1.6 billion in one-time funds that expire in Fiscal year 2026-27 to finance program costs that continue past the funding period). The LAO also states that the May Revision uses deferrals to support new spending, which reduces the State's capacity to address a sharper downturn that could emerge before the deferrals are repaid. The LAO proposes an alternative plan that it states eliminates the deficit by aligning ongoing spending with the Proposition 98 guarantee, avoids payment deferrals and apportionment shortfalls, maintains funding for the COLA and enrollment-related increases and provides more one-time discretionary funding for schools.

Changes in State Budget. The 2025-26 State Budget, when adopted, may be affected by subsequent legislative actions. The Participants cannot provide any assurances that there will not be any changes in the State budget for Fiscal Year 2025-26. The Participants cannot predict the impact that any subsequent legislative actions will have on their finances and operations. The 2025-26 State Budget may be affected by national and State economic conditions and other factors which the Participants cannot predict.

Future State Budgets. The Participants cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and State economic conditions and other factors over which the Participants will have no control. To the extent that the State budget process results in reduced revenues or increased expenses for the Participants, the Participants will be required to make adjustments to their respective budgets. In the event a revision to the 2025-26 State Budget includes decreases in a Participant's revenues or increases in required expenditures by such Participant from the levels assumed by such Participant, such Participant will be required to generate additional revenues, curtail programs and/or services, or spend down its reserve to ensure a balanced budget.

No prediction can be made by the Participants as to whether the State will encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the Participants cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Participants have no control.

SAN DIEGO COUNTY INVESTMENT POOL

The following information concerning the Treasury Pool of San Diego County (the "Treasury Pool") has been provided by the Treasurer-Tax Collector. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

In accordance with Government Code Section 53600 *et seq*., the Treasurer-Tax Collector manages funds deposited with it by the Participants. The County is required to invest funds in accordance with California Government Code Sections 53635 *et seq*. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code.

All investments in the Treasurer-Tax Collector's investment portfolio conform to the statutory requirements of Government Code Section 53635 *et seq*., authorities delegated by the County Board of Supervisors and the Treasurer-Tax Collector's investment policy.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer-Tax Collector the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County Treasury ("Involuntary Depositors"). In addition, certain agencies, such as cities and special districts, invest certain of their funds in the County Treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days' notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee pursuant to State law. The members of the Oversight Committee include the Treasurer-Tax Collector, the County Auditor–Controller, the County Superintendent of Schools or designee, a representative from the special districts, a representative from the school districts and community college districts in the County, and members of the public. The role of the Oversight Committee is to review and approve the Investment Policy that is prepared by the Treasurer-Tax Collector.

The Treasury Pool's Portfolio

As of June 30, 2025, the securities in the Treasury Pool had a market value of $__________ and a book value of $__________, for a net unrealized gain of $__________.

The effective duration for the Treasury Pool was ___ years as of June 30, 2025. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of ___ means that for every one percent increase in interest rates the market value of the portfolio would decrease by ___%.

As of June 30, 2025, approximately ___% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, ___% by community colleges, ___% by the County, ___% by Non-County investment funds and ___% by K-12 school districts.

Fitch Ratings maintains ratings of "AAAf" (highest underlying credit quality) and "S1" (very low sensitivity to market risk) on the Pool. The ratings reflect only the view of the rating agency and any explanation of the significance of such ratings may be obtained from such rating agency as follows: Fitch Ratings, Inc., 33 Whitehall Street, New York, New York 10004.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), asset backed (including mortgage related), pass-through securities, and specific Supranational debt securities

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. At all times, the Pool's investments will comply with California Government Code and the County's Investment Policy (the "Investment Policy").

The Investment Policy. The Investment Policy, which was last updated in January 2021, currently states the primary goals of the Treasurer-Tax Collector when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer-Tax Collector's control, the secondary objective is to meet the liquidity needs of the Pool participants, and the third objective is to achieve an investment return on the funds under the control of the Treasurer-Tax Collector within the parameters of prudent risk management. The Investment Policy contains a goal that 35% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 15% of the securities must mature within 90 days. The maximum effective duration for the Pool shall be 2.0 years.

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business June 30, 2025. As described above, a wide range of investments is authorized by state law. Investments mature and trading activity is constant. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following table were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on June 30, 2025, the Pool necessarily would have received the values specified."

TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS (1)
(As of June 30, 2025)

	Par Value	Book Value	Market Value	Percent of Portfolio	Market Price	Weighted Average Maturity(2)	Yield to Maturity(3)	Accrued Interest	Unrealized Gain/Loss
Asset Backed Securities	$753,303,807	$753,237,689	$758,430,104	4.48%	100.68	1037	4.90%	$1,529,930	$5,192,415
Bank Deposit	445,752,332	445,752,332	445,752,332	2.63	100.00	0	3.92	-	-
Commercial Paper Disc	1,404,000,000	1,396,270,298	1,396,078,402	8.25	99.44	47	4.46	19,371,023	(191,896)
Federal Agency	3,643,078,000	3,640,094,974	3,613,286,279	21.34	99.18	588	1.31	-	(26,808,695)
Money Market Accounts	567,000,000	567,000,000	567,000,000	3.35	100.00	0	4.26	-	-
Negotiable CDs	2,994,000,000	2,994,000,000	2,993,588,449	17.68	99.99	99	4.42	54,403,414	(411,551)
Supranationals	2,360,780,000	2,346,066,388	2,366,588,442	13.98	100.25	1135	3.99	25,184,627	20,522,054
Treasury Coupon Securities	3,935,000,000	3,921,624,751	3,928,770,783	23.21	99.84	807	3.56	28,310,963	7,146,032
Totals for June 2025	$16,960,893,975	$16,921,780,425	$16,929,851,743	100.00%	99.82	562	3.81	$134,877,290	$8,071,318
Totals for May 2025	$17,504,913,639	$17,455,427,802	$17,424,861,310	100.00%	99.54	558	3.72	$133,850,879	$(30,566,492)
Change From Prior Month	$ (544,019,664)	$(533,647,377)	$(495,009,567)	-	0.27	4	0.09	$1,026,411	$38,637,810
Portfolio Effective Duration	1.20 years								

Return Information	Monthly Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.31%	3.78%	3.70%	3.70%	1.85%	3.73%

Source: The County.

(1) Yields for the portfolio are aggregated based on the book value of each security. Monthly Investment Returns are reported gross of fees. Administration fees since ______ have averaged approximately __ basis points per annum.

(2) Weighted Average Maturity (WAM) is average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio.

(3) Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the maturity date.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING PARTICIPANT REVENUES AND APPROPRIATIONS

Limitations on Revenues

Article XIIIA of the California Constitution. Article XIIIA of the State Constitution, adopted and known as Proposition 13, was approved by the voters in June 1978. Section 1(a) of Article XIIIA limits the maximum *ad valorem* tax on real property to one percent of "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIIIA provides that the one-percent limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (1) indebtedness approved by the voters prior to July 1, 1978, or (2) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast on the proposition, or (3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the bond proposition.

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

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

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

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a duty on the county treasurer-tax collector to levy a property tax sufficient to pay debt service on school bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the duty of the respective Participants and the County with respect to such taxes. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or Beneficial Owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the Participants.

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

Expenditures and Appropriations

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

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

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

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

Future Initiatives. Articles XIIIA, XIIIB, XIIIC, and XIIID, and Propositions 98 and 111 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 revenues of the Participants.

STATISTICAL AND FINANCIAL INFORMATION REGARDING THE PARTICIPANTS

In connection with the offering of the Note Participations, each of the Participants has provided the following information and the summary of financial information of the Participants provided under "SUMMARY OF FINANCIAL INFORMATION" herein.

Average Daily Attendance

The following sets forth the average daily attendance (second period data) for the Fiscal Years ended June 30, 2022 through 2024, estimates for the Fiscal Year ended June 30, 2025, and projections for the Fiscal Year ending June 30, 2026 for each Participant.

AVERAGE DAILY ATTENDANCE[1]
Fiscal Years 2021-22 through 2025-26

Participant	2021-22	2022-23	2023-24	2024-25[2]	2025-26

Source: Data for Fiscal Years 2021-22 through 2023-24 are ADAs at P-2, as set forth in the supplemental information section of each respective Participant's audit report, and data for Fiscal Years 2024-25 and 2025-26 are ADAs at P-2 as set forth in each Participant's current budget. Data excludes information for charter schools.

(1) Excludes adults enrolled in adult education programs.

Local Control Funding Formula

The following table sets forth the unrestricted general fund LCFF amount for Fiscal Year 2024-25 and the projected LCFF amount for Fiscal Year 2025-26 for each Participant:

LOCAL CONTROL FUNDING FORMULA
Fiscal Year 2024-25 through 2025-26

	Fiscal Year 2025-26						
Participant	Target Amount[1]	Base Grant[1]	Grade-Based Adjustments[1]	Supplemental and Concentration Grants, and Additional Funding[1]	Fiscal Year 2024-25 Local Control Funding Formula Funding	Fiscal Year 2025-26 Local Control Funding Formula Funding	Change in Funding from Prior Fiscal Year
[District]							

Source: The Participants, based on the Fiscal Crisis and Management Assistance Team calculator.
(1)
(2)

See "STATE AND FEDERAL FUNDING OF EDUCATION – Major Revenues – Local Control Funding Formula" for a description of the allocation of State funding.

Employees

The following table sets forth the number of full-time equivalent certificated and classified employees and management/other employees for each Participant as of June 30, 2025.

FULL-TIME EQUIVALENT EMPLOYEES
(As of June 30, 2025)

Participant	Certificated Employees	Classified Employees	Management/ Other Employees
San Diego Unified School District			
San Dieguito Union High School District			

Source: The Participants, respectively.

The following table sets forth the collective bargaining units representing employees of each Participant and the expiration date of the collective bargaining agreements under which the respective Participant and such collective bargaining units are currently operating:

COLLECTIVE BARGAINING AGREEMENTS

San Diego Unified School District	**Collective Bargaining Units**	**Agreement Expiration Date**
	Administrators Association San Diego City Schools Certificated Supervisors' Unit	June 30, 2025
	Administrators Association San Diego City Schools Classified Supervisors' Unit	June 30, 2025
	California School Employees Association San Diego Chapter 724 Operations-Support Services Bargaining Unit	June 30, 2025
	California School Employees Association San Diego Chapter 788 Office-Technical and Business Services Bargaining Unit	June 30, 2025
	California School Employees Association San Diego Chapter 759 Paraeducators Bargaining Unit	June 30, 2025
	San Diego Police Officers' Association	June 30, 2025
	San Diego Education Association	June 30, 2025
San Dieguito Union High School District	California School Employees Association San Dieguito Chapter 241	June 30, 2027

____

(1) This Participant is in the process of negotiating extensions of its existing agreement or terms of a new agreement. Terms of any expired or expiring agreement continue to apply until a new agreement is finalized.

Depending on the outcome of negotiations relating to new and existing labor agreements referenced in the footnote above, certain Participants may be required to pay increased amounts in compensation to their respective employees.

None of the Participants are aware of any labor disputes which may materially adversely affect the finances or operations of the respective Participant.

Outstanding Obligations

The following table sets forth the long-term outstanding obligations of each Participant as of June 30, 2024.

LONG-TERM OUTSTANDING OBLIGATIONS[1]
(As of June 30, 2024)

Participant	General Obligation Bonds	Lease Obligations[2]	Total OPEB Liability	Net Pension Liability	Compensated Absences
[District]					

Source: Audited financial statements for each respective Participant, except where indicated.
(1) Excludes bond and certificates of participation premium, accreted interest, other long-term liabilities and obligations of assessment districts, special districts, community facilities districts and community service districts and special tax bonds.
(2) Lease obligations include capital leases, certificates of participation and lease revenue bonds.

Property-Related Information

Assessed Valuation and Appeals. The assessed valuation of property in each Participant 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 cash value of the property, as defined in Article XIIIA of the California Constitution. The following table sets forth the total assessed valuation of property in each Participant for the past five Fiscal Years. The Participants cannot predict the impact of the COVID-19 pandemic on the assessed valuations of property in each respective Participant.

ASSESSED VALUE OF TAXABLE PROPERTY[1]
Fiscal Years 2020-21 through 2024-25
($ in thousands)

Participant	2020-21	2021-22	2022-23	2023-24	2024-25
[District]					

Source: San Diego County Office of Education.
(1) Includes secured, unsecured, utility and homeowner's exemption.

Property Tax Collections. On May 6, 2020, the Governor signed Executive Order N-61-20 (the "Executive Order N-61-20") which, among other things, permitted county tax collectors to cancel penalties, costs, and interest for property taxes not timely paid on certain properties until May 6, 2021. Executive Order N-61-20 provided that in order to be eligible for relief, the taxes owed must not have been delinquent prior to March 4, 2020, the taxpayer must timely file a claim for relief in a manner prescribed by the county tax collector, and the taxpayer must demonstrate that it has suffered economic hardship or was otherwise unable to tender timely payment due to the Pandemic or any governmental response to the Pandemic. The County accepted penalty cancellation requests pursuant to Executive Order N-61-20 through May 6, 2021.

The Participants cannot predict to what extent the Pandemic may impact future property tax collections and delinquencies.

The following table sets forth the tax levies, collections, delinquencies and delinquencies as a percentage of total tax levies for property taxes in each Participant for the last five Fiscal Years.

PROPERTY TAX COLLECTIONS
Fiscal Years 2020-21 through 2024-25

Participant; Fiscal Year	Total Tax Amount(1)	Total Tax Amount Collected	Delinquent Tax Amount(2)	Delinquent Tax Amount as Percentage of Total Tax Amount
San Diego Unified School District				
Fiscal Year 2024-25				
Fiscal Year 2023-24				
Fiscal Year 2022-23				
Fiscal Year 2021-22				
Fiscal Year 2020-21				

Source: San Diego County Office of Education.
(1) Total Tax Amount includes local secured, unsecured and State unitary 1% tax.
(2) For informational purposes only. The County implemented the alternative method of apportionment commonly referred as the Teeter Plan in Fiscal Year 1993-94, pursuant to which the County advances to various taxing entities cash in an amount equal to the current year's delinquent secured property taxes and receives, in exchange, all penalty and interest revenues on such delinquent amounts. Delinquent Tax Amount represents the tax due for delinquencies in the year shown that had not been collected as of June 30 of that year.

Largest Taxpayers. The following table sets forth the principal secured taxpayers in each Participant based on such Participant's Fiscal Year 2024-25 assessed value.

PRINCIPAL SECURED TAXPAYERS
Fiscal Year 2024-25

	Taxpayer	Nature of Business	2024-25 Assessed Value	Percentage of Net Local Secured Assessed Value
San Diego Unified School District				
1.	Qualcom Inc.	Office Building	$2,647,620,009	1.03%
2.	H.G. Fenton Co.	Apartments	1,375,899,495	0.54
3.	UTC Venture LLC	Commercial	933,241,969	0.36
4.	Host Hotels and Resorts LP	Hotel	880,331,810	0.34
5.	IQHQ Pacifiq I LLC	Office Building	831,457,840	0.32

Source: San Diego County Office of Education unless otherwise noted.
(1) Source: California Municipal Statistics, Inc.

Financial Statements

The Participants' financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the National Council on Governmental Accounting.

Funds and Accounting Groups used by the Participants are categorized as follows:

<u>Government Funds</u>
General Funds
Special Revenue Funds
Debt Service Funds
Proprietary Funds
Internal Service Funds
Enterprise Funds

<u>Fiduciary Funds</u>
Trust and Agency Funds

<u>Accounting Groups</u>
General Long-Term Debt Amount

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

The summaries of the financial statements included herein were prepared by the Participants using information from the Annual Financial Reports which are prepared by the directors of accounting for the Participants and audited by independent certified public accountants each year. Certain information, such as the General Fund Cash Flow Analyses and projected Fiscal Year 2025-26 budgets, was developed by each Participant's staff for use in this Official Statement. The projected budgets and estimates and timing of receipts and disbursements in such Cash Flow Analyses are based on certain assumptions and should not be construed as statements of fact. The Participants' audited financial statements for the fiscal year ended June 30, 2025 are available from each Participant upon request to the respective Participant, and are summarized in this Appendix A under "Summary of Financial Information."

The summary general fund statements included in this Appendix A for the Participants do not purport to be complete and present only extracts from each respective Participant's financial statements.

Budgets of Participants

The Fiscal Year for all California school districts begins on the first day of July of each year and ends on the 30th day of June of the following year. On or before July 1 of each year, the governing board of each school district, including the Participants, is required to file an adopted budget with the County Superintendent of Schools. On or before September 15 of each year, the County Superintendent of Schools is required to examine and approve, conditionally approve or disapprove the adopted budget for each school district. If an adopted budget is disapproved, then on or before October 8 of such year, such school district and the County Superintendent of Schools must make certain revisions to the budget, adopt the revised budget, and file the revised budget with the County Superintendent of Schools.

If the revised budget of a school district is disapproved, the County Superintendent of Schools is empowered by law to oversee the management of such school district for that Fiscal Year, with the authority to monitor and review the operation of such district, to develop and adopt a fiscal plan and budget for such district, and to stay and rescind actions that are inconsistent with that budget.

The County school service fund (the "Service Fund") of the County Office of Education is employed by the County Superintendent of Schools to pay such charges against the Service Fund as are permitted by the California Education Code, including expenses of the County Superintendent of Schools and the County Board of Education. The County Superintendent of Schools must submit to the State Superintendent of Public Instruction (1) a tentative budget, on or before June 30 of each year, and (2) a final budget, on or before September 8 of each year (collectively, the "Service Fund Budget"), which outlines anticipated revenues to and expenditures from the Service Fund for the succeeding Fiscal Year, including the anticipated revenues and expenditures of the County Office of Education of the County Superintendent of Schools. The Service Fund Budget is subject to review and approval by the County Board of Education. The County Board of Education must hold a public hearing on the proposed Service Fund Budget and, following such public hearing, the final Service Fund Budget must be adopted by the Board of Education before being filed with the Superintendent of Public Instruction. The final Service Fund Budget is subject to review and approval by the Superintendent of Public Instruction. See Appendix B attached hereto for a summary of the Participants' projected receipts and disbursements for Fiscal Year 2025-26.

The California State Department of Education imposes a uniform budgeting format for each school district in the State. The Participants are 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.

The following table sets forth the Fiscal Year 2025-26 General Fund (unrestricted) budgets for the Participants, all of which are subject to approval by the San Diego County Office of Education.

General Fund Budgets
Fiscal Year 2025-26

Description	San Diego Unified School District	San Dieguito Union High School District
Revenues		
LCFF Sources	1,241,082,582.00	162,753,723.00
Federal Revenue	124,466,839.00	4,118,106.00
Other State Revenue	365,965,294.00	16,916,246.00
Other Local Revenue	1,803,105,795.00	11,895,230.00
Total Revenues		195,683,305.00
Expenditures		
Certificated Salaries	792,212,411.00	85,294,476.00
Classified Salaries	314,390,164.00	29,872,342.00
Employee Benefits	617,563,141.00	51,021,799.00
Books and Supplies	57,273,518.00	11,101,499.00
Services and Other Operating Expenditures	196,028,323.00	22,068,099.00
Capital Outlay	8,130,070.00	952,000.00
Other Outgo (excluding Transfers of Indirect Costs)	4,873,278.00	1,413,978.00
Other Outgo (Transfers of Indirect Costs)	(1,764,991.00)	(145,000.00)
Total Expenditures	1,988,705,914.00	201,579,193
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources and Uses	(185,600,119.00)	(5,895,888.00)

(Continued on next page.)

Description	San Diego Unified School District	San Dieguito Union High School District
(Continued from prior page.)		
Other Financing Sources/Uses		
Interfund Transfers		
Transfers In	25,258,077.00	0.00
Transfers Out	8,954,772.00	1,100,000.00
Other Sources/Uses		
Sources	0.00	0.00
Uses	0.00	0.00
Contributions	0.00	0.00
Total Other Financing Sources/Uses	16,303,305.00	(1,100,000.00)
Net Increase (Decrease) in Fund Balance	(169,296,814.00)	(6,995,888.00)
Fund Balance, Reserves		
1) Beginning Fund Balance		
a) As of July 1 – Unaudited	495,184,943.00	34,170,648.79
b) Audit Adjustments	0.00	0.00
c) As of July 1 – Audited	495,184,943.00	34,170,648.79
d) Other Restatements	(276,486.00)	0.00
e) Adjusted Beginning Balance	494,908,457.00	34,170,648.79
2) Ending Balance, June 30	325,611,643.00	27,174,760.79

Source: Each Participant's respective adopted budget for Fiscal Year 2025-26.

Fiscal Status Reports and Interim Certifications

The Education Code of the State of California (Section 42133 *et seq.*) requires each school district to report and certify two times during the Fiscal Year whether it is able to meet its financial obligations for the remainder of such Fiscal Year and, based on current forecasts, for the subsequent two Fiscal Years. The first report covers the period ending October 31 and the second report covers the period ending January 31. Such certifications are based on the governing board's assessment based on standards and criteria for fiscal stability adopted by the State Board of Education and the State Superintendent of Public Instruction. Each certification is required to be classified as positive, qualified, or negative on the basis of a review of the respective report against such criteria, but may include additional financial information known by the governing board to exist at the time of each certification. Such certifications are to be filed with the County Superintendent of Schools within 45 days after the close of the period being reported and, in the event of a negative or qualified certification, to the State Controller and the State Superintendent of Public Instruction. The County Superintendent of Schools must review each report and must approve or revise the certification if necessary. A negative certification is to be assigned to any school district that likely will be unable to meet its financial obligations for the remainder of the Fiscal Year or for which existing expenditure practices jeopardize the ability of the district to meet its multi-year financial commitments. A qualified certification is to be assigned to any school district that may not meet its obligations for the current Fiscal Year or two subsequent Fiscal Years. Any school district that has a qualified or negative certification in any Fiscal Year may not issue, in that Fiscal Year or in the next fiscal succeeding year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the County Superintendent of Schools determines that the district's repayment of indebtedness is probable.

[Description of certifications per Participant to come.]

Copies of the reports and certifications of each of the Participants may be obtained upon request from the San Diego County Office of Education, Executive Director, District Financial Services, 6401 Linda Vista Road, San Diego, California 92111, telephone: 858-292-3537.

Insurance

Each Participant maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverage for property damage, fire and theft, general public liability and worker's compensation with respect to its respective facilities, personnel and operations, as are adequate, customary and comparable with such insurance maintained by similarly situated school districts. In addition, based upon prior claims experience, each Participant believes that the recorded liabilities for its self-insured claims are adequate.

Retirement

Each of the Participants participates in retirement plans with the California State Teachers' Retirement System ("CalSTRS"), which covers all full-time certificated employees of each Participant, and the California Public Employees' Retirement System ("CalPERS"), which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

CalSTRS. CalSTRS is a defined benefit plan that covers all full-time certificated employees of each Participant and some classified employees of each Participant, which are employees employed in a position that does not require a teaching credential from the State. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law. CalSTRS is operated on a

Statewide basis and, based on publicly available information, has substantial unfunded liabilities. Additional funding of CalSTRS 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.

CalSTRS provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service. The State Teachers' Retirement Plan ("STRP") holds assets for the exclusive purpose of providing benefits to members and beneficiaries of its programs. CalSTRS also uses plan assets to defray reasonable expenses of administering STRP.

As part of the 2014-15 State Budget, the Legislature enacted AB 1469 (Chapter 47, Statutes of 2014) ("AB 1469"), a comprehensive funding solution intended to eliminate the projected CalSTRS unfunded liability on the CalSTRS Defined Benefit Program by 2046. Under AB 1469, the funding plan began in Fiscal Year 2014-15 and will be phased in over several years. The employer contribution rate increased by 1.85% of covered payroll annually beginning July 1, 2015 and will continue to increase until the employer contribution rate is 19.10% of covered payroll. Beginning in Fiscal Year 2021-22 through Fiscal Year 2045-46, AB 1469 authorizes the CalSTRS Board to adjust the employer contribution up or down 1 percentage point each year, but no higher than 20.25% total and no lower than 8.25%, to eliminate the remaining unfunded obligation that existed on July 1, 2014.

In addition, the CalSTRS Board is authorized to modify the percentages paid by employers and employees for Fiscal Year 2021-22 and each Fiscal Year thereafter in order to eliminate CalSTRS' unfunded liability by June 30, 2046 based upon actuarial recommendations. The CalSTRS Board would also have the authority to reduce employer and State contributions if they are no longer necessary.

In January 2024, the CalSTRS Board adopted a new set of actuarial assumptions based on the multi-year CalSTRS Experience Analysis (spanning from July 1, 2007, through June 30, 2022) (the "2024 Experience Analysis"), which established several changes to demographic and economic assumptions, including: (i) decreasing the payroll growth assumption from 3.50% to 3.25% and (ii) changing mortality assumptions, including an update in the mortality improvement scale used to project future life expectancies to reflect more current trends. The 2024 Experience Analysis projects that such changes would contribute to a 1.1% increase in the funded ratio as of June 30, 2023, an increase in the unconstrained employer contribution rate and a decrease in the unconstrained State contribution rate, as compared to prior assumptions. Unconstrained contribution rates are the actuarially calculated rates before any limits to changes are applied and do not reflect the CalSTRS Board's ability to maintain State and employer contribution rates that are greater than the actuarially calculated rates. The 2024 Experience Analysis does not expect any impact on member contribution rates as a result of adopting such new assumptions. The assumptions and methods that remain unchanged in the 2024 Experience Analysis include: use of the "Entry Age Cost Method" to measure accruing costs of benefits with future accruals; a 7.00% investment rate of return (net of investment and administrative expenses); a 3.00% interest on member accounts; and a projected 3.50% general wage growth, of which 2.75% is due to inflation and 0.75% is due to expected gains in productivity. The assumptions and methods set forth in the 2024 Experience Analysis are reflected in the CalSTRS Defined Benefit Program Actuarial Valuation, as of June 30, 2023 (the "2023 CalSTRS Actuarial Valuation").

Defined Benefit Plan Actuarial Valuation. The Defined Benefit Program is the largest component of STRP, the plan in which the Participants are members. The June 30, 2023 actuarial valuation for CalSTRS (the "2023 CalSTRS Actuarial Valuation"). The 2023 CalSTRS Actuarial Valuation reports that the unfunded actuarial obligation decreased by approximately $1.97 billion since the CalSTRS Defined Benefit Program Actuarial Valuation as of June 30, 2022 (the "2022 CalSTRS Actuarial Valuation") and the funded ratio increased by 1.5% to 75.9% over such time period. The increase in the funded ratio is primarily due to the expected year-to-year change as a result of contributions to pay down the unfunded actuarial obligation and the new assumptions (primarily the mortality assumption change) that were adopted for the use with this valuation.

According to the 2023 CalSTRS Actuarial Valuation, the future revenues from contributions and appropriations for the CalSTRS Defined Benefit Program are projected to be approximately sufficient to finance its obligations, and the unfunded actuarial obligation is projected to be amortized by June 30, 2046, with a projected ending funded ratio of 104.1%. This finding assumes that the CalSTRS Board continues its practice of maintaining State and employer contribution rates at the current level until the associated unfunded actuarial obligation is paid off, a 7.00% investment rate of return and the future recognition of the currently deferred asset gains.

The actuary for the CalSTRS Defined Benefit Program notes in the 2023 CalSTRS Actuarial Valuation that the decrease in unfunded actuarial obligation represents a net actuarial gain of $1.522 billion since the unfunded actuarial obligation was expected to be $88.101 billion based on the 2022 CalSTRS Actuarial Valuation. Although the 2023 CalSTRS Actuarial Valuation notes that the current assumptions underlying the results of the actuarial valuation provide a reasonable estimate of future expectations, future experience can differ from such assumptions to some extent. There are a number of factors that affect future valuation results, and differences between actual experience and assumption for these factors will likely cause increases or decreases in the plan's future funding level and calculated supplemental contribution rates. Of such factors, the one with the greatest potential risk is future investment returns, while payroll variation can also have a significant impact on valuation results.

On July 29, 2022, CalSTRS reported a negative 1.3% net return on investments for Fiscal Year 2021-22, which was CalSTRS' first negative return on investments since Fiscal Year 2008-09. The negative 1.3% net return on investments was less than the assumed annual rate of return on investments of 7.00%. As noted in the CalSTRS 2023 Review of Funding Levels and Risks, presented to the CalSTRS Board on November 2, 2023, CalSTRS earned just below its assumed rate of return of 7.00% for Fiscal Year 2022-23 with a 6.3% time-weighted investment return. On July 30, 2024 CalSTRS reported an 8.4% net return on investments for Fiscal Year 2023-24, exceeding its benchmark goal of 7.00% average return on investment. However, persistent negative returns on investments may result in increased employer contribution rates above the current level of expected increases. The Participant cannot predict the impact of State, national, and international events on investment returns and employer contribution rates or the amount the Participant will be required to pay for pension related costs. Accordingly, there can be no assurances that the Participant's required contributions to CalSTRS will not significantly increase in the future.

The employer contribution rate for Fiscal Year 2023-24 was 19.10%. The contribution rate for Fiscal Year 2024-25 remains at 19.10%.

The unfunded actuarial obligation and funded status of the CalSTRS pension fund as of valuation dates June 30, 2019 through June 30, 2023 are set forth below. The individual funding progress for each Participant is not provided in the actuarial report from CalSTRS.

Actuarial Value of State Teachers' Retirement Fund Defined Benefit Program
Valuation Dates June 30, 2019 through June 30, 2023
($ in millions)

Valuation Date (June 30)	Actuarial Obligation	Actuarial Value of Assets(1)	Unfunded Actuarial Obligation	Funded Ratio (Actuarial Value)	Funded Ratio (Fair Market Value)	Covered Payroll
2019	$310,719	$205,016	$105,703	66%	67%	$32,897
2020	322,127	216,252	105,875	67	67	33,811
2021						
2022						
2023						

(1) Actuarial Value of Assets does not include amounts allocable to the CalSTRS Supplemental Benefits Maintenance Account.
Sources: California State Teachers' Retirement System Defined Benefit Program Actuarial Valuations as of June 30, 2019 through June 30, 2023.

Net Pension Liability. [To be updated.] CalSTRS became subject to the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 67 ("GASB 67"), Financial Reporting for Pension Plans, beginning with the year ended June 30, 2014, and CalSTRS' participating employers, including the Participant, became subject to the provisions of GASB Statement No. 68 ("GASB 68"), Accounting and Financial Reporting for Pensions, beginning with the year ended June 30, 2015. These standards require governments to recognize their long-term obligation for pension benefits as a liability on their balance sheets, to recognize their annual pension expense as a comprehensive measurement of the annual cost of pension benefits, and expands note disclosures and required supplementary information for pension plans and their participating employers.

Pursuant to GASB 67 and GASB 68, the funded status and unfunded UAAL of the Benefit Plan are no longer presented in the notes or required supplementary information. UAAL was determined by subtracting the excess of the actuarial accrued liability (discounted at the pension plan's assumed rate of return) from the actuarial value of assets (determined by smoothing values over a certain number of years to reduce volatility), and represented the costs allocated to date for current CalSTRS members that are not covered by the actuarial value of assets. Pursuant to GASB 67, the UAAL has been replaced by the net pension liability ("NPL") for financial reporting purposes, which represents the excess of the total pension liability (using an entry age cost method, discounted at a discount rate that reflects the expected return on plan assets) over fiduciary net position (valued at fair value).

Pursuant to GASB 67, CalSTRS' actuary determined that CalSTRS' net pension position for STRP, which includes the Defined Benefit Program (being the largest portion of STRP), the Defined Benefit Supplement Program, the Cash Balance Benefit Program and the Replacement Benefit Program, increased from $238.9 billion as of June 30, 2019 to $247.0 billion as of June 30, 2020. Based on a total pension liability of $343.9 billion, the NPL of the STRP for participating employers (including the Participants) and the State (a non-employer contributing entity) as of June 30, 2020 was $96.9 billion (compared to $90.3 billion as of June 30, 2019), resulting in the STRP fiduciary net position as a percentage of the total pension liability of 71.8% (compared to 72.6% as of June 30, 2019). The total pension liability for the STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2019, and rolling forward the total pension liability to June 30, 2020. Compared to Fiscal Year 2018-19, total contributions for Fiscal Year 2019-20 decreased by $400 million (2.5%) primarily due to a reduction in one-time, supplemental State contributions received compared to the prior fiscal year, partially offset by an increase in regular member and employer contributions due to an increase in active members, creditable compensation, and contribution rates.

Participants' Proportionate Shares of DB Plan. The following table sets forth each Participant's proportionate share of the Defined Benefit Plan ("DB Plan") net pension liabilities and the total employer contributions as of June 30, 2024.

Participants' Proportionate Shares of DB Plan
as of June 30, 2024

Participant	Proportionate Share of DB Plan[1]	Proportionate Share of Employer Contributions[2]
[District]		

Source: Audited financial statements for each respective Participant, except where indicated.

CalPERS. CalPERS is a defined benefit plan that covers classified personnel who work four or more hours per day. Benefit provisions are established by State legislation in accordance with the Public Employees' Retirement Law. The contribution requirements of the plan members are established by State statute. The actuarial methods and assumptions used for determining the rates are based on those adopted by Board of Administration of CalPERS (the "CalPERS Board").

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 55 with benefits equal to 2.0% of final compensation for each year of service credit. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 62 with benefits equal to 2.0% of final compensation for each year of service credit. All members are eligible for non-duty disability benefits after 5 years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive so-called 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least 5 years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Active plan miscellaneous members hired on or before December 31, 2012 are required to contribute 7.0% of their monthly salary and those hired on or after January 1, 2013 are required to contribute 8.0% of their monthly salary (effective July 1, 2022). The required contribution rate is the difference between the actuarially determined rate and the contribution rate of employees. The actuarial methods and assumptions used for determining the rates are based on those adopted by the CalPERS Board. School districts are currently required to contribute to CalPERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for Fiscal Years 2015-16, 2016-17 and 2017-18 respectively, 18.062% of eligible salary expenditures for Fiscal Year 2018-19 and 19.721% of eligible salary for Fiscal Year 2019-20. The Fiscal Year 2020-21 State Budget redirected State funding paid to CalPERS in Fiscal Year 2019-20 towards long-term unfunded liabilities to reduce employer contribution rates in Fiscal Years 2020-21 and 2021-22. As a result, the CalPERS employer contribution rate was 20.7% in Fiscal Year 2020-21 and 22.91% in Fiscal Year 2021-22. The State's supplanting payments made under this redirection of funding expired at the end of Fiscal Year 2021-22. The CalPERS employer contribution rates were 25.37% for Fiscal Year 2022-23 and 26.68% for Fiscal Year 2023-24, and is 27.05% for Fiscal Year 2024-25.

Schools Pool Plan Actuarial Valuation. According to the CalPERS Schools Pool Actuarial Valuation as of June 30, 2022 (the "2022 CalPERS Schools Pool Actuarial Valuation") for the CalPERS Schools Pool Plan, the actuarial funding method used was the "Entry Age Actuarial Cost Method." The 2022 CalPERS Schools Pool Actuarial Valuation assumed, among other things, 2.30% inflation and payroll growth of 2.80% compounded annually. The 2022 CalPERS Schools Pool Actuarial Valuation reflected a discount rate of 6.80% compounded annually (net of investment and administrative expenses) as of June 30, 2022.

According to the 2022 CalPERS Schools Pool Actuarial Valuation, the funded ratio was 67.9% on a market value of assets basis, demonstrating a decrease of 10.4% from the funded ratio of 78.3% reported in the CalPERS Schools Pool Actuarial Valuation as of June 30, 2021. This decrease was mainly due to investment return in Fiscal Year 2021-22 being lower than expected. In the 2022 CalPERS Schools Pool Actuarial Valuation, the contribution rate for Fiscal Year 2024-25 was projected to be 27.8%, the contribution rate for Fiscal Year 2025-26 was projected to be 28.5%, the contribution rate for Fiscal Year 2026-27 was projected to be 28.9%, the contribution rate for Fiscal Year 2027-28 was projected to be 30.3%, and the contribution rate for Fiscal Year 2028-29 was projected to be 30.1%. The projected contribution rates in the 2022 CalPERS Schools Pool Actuarial Valuation assumed an investment return of 6.80% each year, net of investment and administrative expenses. The projections assumed that all actuarial assumptions would be realized and that no further changes to assumptions, contributions, benefits or funding would occur during the projection period.

The CalPERS Schools Pool Actuarial Valuation as of June 30, 2023 (the "2023 CalPERS Schools Pool Actuarial Valuation"), which is expected to be released in full later this year, was presented in summary form to the Finance and Administration Committee of the CalPERS Board on April 15, 2024. The summary reports an actuarial accrued liability of approximately $124.9 billion with the market value of assets at approximately $84.3 billion, and a funded ratio of approximately 67.5%. From June 30, 2022 to June 30, 2023, the funded ratio of the CalPERS Schools Pool decreased by 0.4%, and the unfunded accrued liability increased by approximately $3.0 billion, primarily due to greater-than-expected salary increases in Fiscal Year 2022-23. Employer contribution rates for Fiscal Years 2025-26 through 2029-30, respectively, are projected to be as follows: 27.6%, 28.0%, 29.2%, 29.0% and 28.8%. These projections assume an investment return rate of 6.8%, and actual contribution requirements will differ if actual investment return differs.

The 2022 CalPERS Schools Pool Actuarial Valuation noted that the investment return for Fiscal Year 2021-22 was approximately negative 6.1% reduced for administrative expenses, which was lower than the assumed annual rate of return on investments of 6.8% and was CalPERS' first negative return on investments since Fiscal Year 2008-09. This negative return led to an investment loss, in part generating new unfunded liability and increasing the unfunded liability component of the required employer contribution rate to be amortized over the next 20 years. The summary of the 2023 CalPERS Schools Pool Actuarial Valuation notes that based on final June 30, 2023 assets, the money-weighted investment return for Fiscal Year 2022-23 was 6.1%, generating an actuarial investment loss of $0.6 billion, which will be amortized over 20 years with a five-year ramp, contributing to an increase in the employer contribution rate in Fiscal Year 2024-25. On July 15, 2024, CalPERS reported a preliminary net return of 9.3% on its investments for the 12-month period ending June 30, 2024, which exceeded the assumed annual rate of return on investments of 6.8% . However, persistent negative returns on investments may result in increased employer contribution rates above the current level of expected increases. The Participant cannot predict the impact of State, national, and international events on investment returns and employer contribution rates. Accordingly, there can be no assurances that the Participant's required contributions to CalPERS will not significantly increase in the future.

The following table sets forth the actuarial accrued liabilities, market value of assets, funded status (based on market value of assets), unfunded liabilities (based on market value of assets), projected payroll for determining contributions and unfunded liabilities as a percentage of covered payroll as of June 30, 2017 through 2022.

Actuarial Value of Schools Portion of CalPERS
Historical Funding Status
Valuation Dates June 30, 2017 through June 30, 2022
($ in millions)

Valuation Date (June 30)	Actuarial Accrued Liabilities	Market Value of Assets (MVA)	Funded Status (MVA)	Unfunded Liabilities/ (Surplus) (MVA)	Projected Payroll for Determining Contributions	Unfunded Liabilities/ (Surplus) as a % of Payroll
2017	$84,416.06	$60,865.46	72.1%	$23,550.60	$13,683.44	172.1%
2018	92,070.94	64,846.34	70.4	27,224.60	14,234.50	191.3
2019	99,528.45	68,177.14	68.5	31,351.30	14,844.46	211.2
2020						
2021						
2022						

Source: CalPERS Schools Pool Actuarial Valuations as of June 30, 2017 through June 30, 2022.

CalPERS issues a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS CAFR and actuarial valuations may be obtained from the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information set forth therein is not incorporated by reference in this Official Statement.

Net Pension Liability. [To come.] CalPERS became subject to the provisions of GASB 67 beginning with the year ended June 30, 2014, and PERS' participating employers, including the Participants, became subject to the provisions of GASB 68 beginning with the year ended June 30, 2015. See "California State Teachers' Retirement System – Defined Benefit Plan – Net Pension Liability" above for a description of GASB 67 and GASB 68.

The GASB 68 Accounting Valuation Report for the Schools Pool Plan for the measurement period June 30, 2018 to June 30, 2019 (the "2019 GASB 68 Accounting Valuation Report") reflects a total pension liability of $97.3 billion (compared to $91.5 billion as of June 30, 2018), a fiduciary net position of $68.2 billion (compared to $64.8 billion as of June 30, 2018), a net pension liability of $29.1 billion (compared to $26.7 billion as of June 30, 2018) and a Plan Fiduciary Net Position as a Percentage of Total Pension Liability of 70.0% (compared to 70.8% as of June 30, 2018). The total pension liabilities were determined by actuarial valuations as of June 30, 2018, which were rolled forward to June 30, 2019, using actuarial assumptions adopted by the CalPERS Board and consistent with the requirements of GASB 68.

<u>*Participants' Proportionate Shares of the Schools Pool Plan*</u>. The following table sets forth each Participant's proportionate share of the School Pool Plan net pension liabilities and the total employer contributions as of June 30, 2024.

Participants' Proportionate Shares of Schools Pool Plan
as of June 30, 2024

Participant	Proportionate Share of Schools Pool Plan(1)	Total Employer Contributions(2)
[District]		

Source: Audited financial statements for each respective Participant, except where indicated.

(1) [The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to an actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024. Each Participant's proportion of the net pension liability was based on a projection of the Participant's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined.]

(2) As reported on a current financial resources measurement focus basis.

CalPERS issues a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS CAFR and actuarial valuations may be obtained from the CalPERS Financial Services Division, P.O. Box 942703, Sacramento, California 94229-2703. The information set forth therein is not incorporated by reference in this Official Statement.

Supplemental Retirement Programs. Certain Participants participate in supplemental retirement programs for employees not currently covered by CalSTRS or CalPERS. See the table entitled "Long-Term Outstanding Obligations" for liability relating to any early retirement incentive program.

Post-Retirement Health Care. In addition to employee health care costs, many of the Participants provide post-employment health care benefits in accordance with collective bargaining agreements. Some of these arrangements place limits on these benefits, such as an aggregate limit on the respective Participant's costs or a termination of the health care benefits upon the retiree reaching age 65. Most Participants providing post-employment health care benefits do so on a pay-as-you-go basis, paying an amount in each Fiscal Year equal to the benefits distributed or disbursed in that Fiscal Year.

Previously, the Participants reported financial information related to their OPEB plans pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 45 ("Statement No. 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 established standards for measuring, recognizing and disclosing post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments (such other post-employment benefits are referred to herein as "OPEB"). Under Statement No. 45, governments were required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer's future cash flows. The Participants' post-employment health benefits fall under Statement No. 45.

The core requirement of Statement No. 45 was that at least biennially an actuarial analysis must be prepared with respect to projected benefits ("Plan Liabilities"); against this would be measured the actuarially determined value of the related assets (the "Plan Assets"). To the extent that Plan Liabilities exceeded Plan Assets, then similar to the actuarial and accounting practices for pension plan liabilities, the difference would be amortized over a period which could be up to 30 years. The method of financial reporting for OPEB costs would be similar to financial reporting for pension plan normal costs and unfunded actuarial accrued liability.

In June 2015, the GASB issued GASB Statement No. 75 ("Statement No. 75"), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces the requirements of Statement No. 45. Statement No. 75 became effective for Fiscal Years beginning after June 15, 2017 and included a number of changes from Statement No. 45. Among other things, Statement No. 75 (i) provides that the unfunded actuarial accrued liability for OPEB plans (referred to as "Net OPEB Liability" as a result of Statement No. 75) is to be recognized on a Participant's balance sheet as a liability and (ii) provides for additional OPEB-related disclosures and supplementary information in a Participant's financial statements. The core requirement of biennial actuarial analysis, as it applies to the Participants, remains unchanged. The requirements that Statement No. 75 impose on the Participants only affect the Participants' financial statements and do not impose any requirements regarding the funding of any OPEB plans.

The Participants have determined their Total OPEB Liability, which represents the costs and obligations incurred as a consequence of receiving services of current employees and retirees, for which benefits are owed in exchange. The following table sets forth each Participant's Total OPEB Liability and Net OPEB Liability as calculated in their most recent OPEB actuarial valuation.

OTHER POST-EMPLOYMENT BENEFITS LIABILITY

Participant	As of Date of Valuation	Total OPEB Liability	Net OPEB Liability
[District]			

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Source: Each respective Participant.

Temporary Transfers

Certain Participants may receive from time to time temporary transfers of funds from the Treasurer-Tax Collector of the County (each, a "Temporary Transfer" and collectively, the "Temporary Transfers"; such transfer is also referred to as a Treasurer's Loan from time to time). A Temporary Transfer must be repaid from the Treasury Pool participant's first revenues received thereafter before any other obligation and thus, in the case of the aforementioned Participants, would have a priority over such Participants' general fund debt obligations. Each Participant may require the County to provide such Participant with a Temporary Transfer even after the Note Participations are issued, to the extent that there are revenues available therefor. None of the Participants has an outstanding Temporary Transfer.

Continuing Disclosure

[District-specific disclosure to come.]

See "Continuing Disclosure" in the forepart of this Official Statement.

Cybersecurity

[District-specific disclosure to come.]

Litigation

Pending lawsuits and other claims against the Participants are incidental to the ordinary course of operations of the Participants and are largely covered by the Participants' self-insurance programs. There are no claims or lawsuits (with any potential cost to any Participant exceeding $1,000,000) pending against any of the Participants.

SUMMARY OF FINANCIAL INFORMATION