

OFFICIAL STATEMENT

NEW ISSUE

BOOK-ENTRY ONLY
BANK QUALIFIED

RATING

Moody's: Aaa
(See "RATING" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "Tax Matters" herein.

\$1,500,000 **SOUTH BAY UNION SCHOOL DISTRICT** (HUMBOLDT COUNTY CALIFORNIA) **GENERAL OBLIGATION BONDS, 1998 ELECTION**

Dated: May 15, 1999

Due: August 1, as shown below

The South Bay Union School District, General Obligation Bonds, 1998 Election (the "Bonds") are being issued for the purpose of raising money to repair, improve and construct facilities, as more fully described herein. (See "THE BONDS - Purpose of the Issue.")

The Bonds represent the general obligation of the South Bay Union School District (the "District"), and the Board of Supervisors of Humboldt County is empowered and is obligated to levy ad valorem taxes, without limitation of rate or amount, for the payment of interest on and principal of the Bonds, upon all property subject to taxation by the District (except certain personal property which is taxable at limited rates). To the extent more fully described herein, the Bonds are legal investments for commercial banks in the State of California and are eligible to secure deposits of public monies in the State of California.

Payment of the principal of and interest on the Bonds when due will be guaranteed by a municipal bond insurance policy issued simultaneously with the delivery of the Bonds by MBIA Insurance Corporation.



Interest due with respect to the Bonds is payable semiannually on February 1 and August 1 of each year commencing February 1, 2000. The Bonds will be delivered in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Ownership interests in the Bonds will be in denominations of \$5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical certificates representing their interests in the Bonds, but will receive a credit balance on the books of the nominees for such beneficial owners. The principal and interest with respect to the Bonds will be paid by U.S. Bank Trust, National Association as Paying Agent (the "Paying Agent") to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS - Book-Entry Only System." **The Bonds are subject to redemption prior to their stated maturities as described herein. See "The Bonds-Redemption" herein.**

<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>Maturity (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2000	\$ 10,000	7.10 %	3.00 %	2010	\$ 40,000	4.30 %	4.30 %
2001	25,000	7.10	3.40	2011	40,000	4.40	4.40
2002	30,000	7.10	3.50	2012	45,000	4.45	4.45
2003	30,000	7.10	3.60	2013	45,000	4.50	4.50
2004	30,000	7.10	3.75	2014	50,000	4.55	4.55
2005	30,000	7.10	3.90	2015	50,000	4.60	4.60
2006	35,000	7.10	4.00	2016	50,000	4.65	4.65
2007	35,000	4.10	4.10	2017	55,000	4.70	4.70
2008	35,000	4.15	4.15	2018	60,000	4.75	4.75
2009	40,000	4.20	4.20	2019	60,000	4.80	4.80

\$275,000 5.00% Term Bonds due August 1, 2023; Yield 5.00%

\$430,000 5.00% Term Bonds due August 1, 2028; Yield 5.00%

The Bonds were sold by competitive bid as set forth in the Official Notice of Sale. The Bonds will be offered when, as and if issued by the District and received by the purchasers, subject to the approval of legality by Jones Hall, San Francisco, California, Bond Counsel. It is anticipated that the Bonds in definitive form will be available for delivery to DTC on or about May 18, 1999.

EVEREN Securities, Inc.

This Official Statement is dated May 4, 1999.

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

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

The information set forth herein has been obtained from sources believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as representation by The District, Andrew Ach & Associates, Inc. or the Humboldt County Treasurer or the Underwriter.

WITH RESPECT TO THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**SOUTH BAY UNION SCHOOL DISTRICT
HUMBOLDT COUNTY
STATE OF CALIFORNIA**

District Board of Trustees

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Jan Goff, Clerk
John Fullerton, Trustee
Gay Hylton, Trustee
Ken Setmore, Trustee

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Paul Johnson, Superintendent

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OFFICIAL STATEMENT

\$1,500,000
SOUTH BAY UNION SCHOOL DISTRICT
(HUMBOLDT COUNTY, CALIFORNIA)
GENERAL OBLIGATION BONDS
1998 ELECTION

INTRODUCTION

The \$1,500,000 principal amount of the South Bay Union School District General Obligation Bonds, 1998 Election (the "Bonds") represents the sale of the bonds approved by more than two-thirds of the voters casting ballots at an election held in the South Bay Union School District (the "District") on November 3, 1998. The Bonds represent the general obligation of the District to be issued under provisions of the State of California Education Code, the Government Code (and other applicable law), and pursuant to a resolution of the Board of Trustees of the District adopted on March 9, 1999. Proceeds from the sale of the Bonds will be used to repair and upgrade and expand school facilities (see "THE BONDS - Purpose of the Issue").

THE BONDS

Authority for Issuance

The \$1,500,000 principal amount of the Bonds of the District are issued under provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the "State"), and pursuant to the terms of the resolution adopted on March 9, 1999, as supplemented by a Certificate of Award executed by the Superintendent of the District upon the sale of the Bonds. (The resolution and Certificate of Award are collectively referred to herein as the "Resolution"). The Bonds represent an authorization of \$1,500,000 approved by District voters on November 3, 1998.

Terms of Sale

The Bonds were offered at competitive sale by the District and awarded to the best responsible bidder as determined by the provisions set forth in the Official Notice of Sale for the Bonds. The successful bidder may re-offer the Bonds to the public at any prices or yields the bidder so determines.

Description of the Bonds

The Bonds will be dated May 15, 1999 and will be issued in registered form in denominations of \$5,000 principal amount or any integral multiple thereof, provided that no Bond shall have principal maturing on more than one maturity date. The Bonds will be delivered in fully registered form only and, when executed and delivered, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of the Bonds will not receive physical certificates representing their interests in the Bonds, but will receive a credit balance on the books of the nominees for such beneficial owners. The principal and interest with respect to the Bonds will be paid by U.S. Bank Trust, N.A. as Paying Agent (the "Paying Agent") to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. As long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds are payable by wire transfer with same-day funds transferred by Cede & Co. As long as Cede & Co. is the registered owner of the Bonds, references herein to the registered owners shall mean Cede & Co. as aforesaid and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See "THE BONDS - Book - Entry System." The Bonds will mature on August 1, in the years and amounts set forth in the following maturity schedule:

**EXHIBIT 1
SCHEDULE OF MATURITIES**

<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Maturity Date (August 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2000	\$ 10,000	7.10 %	2011	\$ 40,000	4.40%
2001	25,000	7.10	2012	45,000	4.45
2002	30,000	7.10	2013	45,000	4.50
2003	30,000	7.10	2014	50,000	4.55
2004	30,000	7.10	2015	50,000	4.60
2005	30,000	7.10	2016	50,000	4.65
2006	35,000	7.10	2017	55,000	4.70
2007	35,000	4.10	2018	60,000	4.75
2008	35,000	4.15	2019	60,000	4.80
2009	40,000	4.20	2023 *	275,000	5.00
2010	40,000	4.30	2028 *	430,000	5.00

* Term bond, see "Redemption - Mandatory Sinking Fund Prepayment" herein.

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix F for a specimen of the Insurer's policy.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due.

Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1997, the Insurer had admitted assets of \$5.3 billion (audited), total liabilities of \$3.5 billion (audited), and total capital and surplus of \$1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1998, the Insurer had admitted assets of \$6.5 billion (audited), total liabilities of \$4.2 billion (audited), and total capital and surplus of \$2.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Year 2000 Readiness Disclosure

MBIA Inc. is actively managing a high priority Year 2000 (Y2K) program. The company has established an independent Y2K testing lab in its Armonk headquarters, with a committee of business unit managers overseeing the project. MBIA has a budget of \$1.13 million for its 1998-2000 Y2K efforts. Expenditures are proceeding as anticipated, and we do not expect the project to materially exceed this amount. MBIA has initiated a comprehensive Y2K plan that includes assessment, remediation, testing and contingency planning. This plan covers "mission-critical" internally developed systems, vendor software, hardware and certain third-party entities through which we conduct our business. Testing to date indicates that functions critical to the financial guarantee business, both domestic and international, were Y2K-ready as of December 31, 1998. Additional testing will continue throughout 1999.

- Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".
- Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA".
- Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Book-Entry System

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners, and DTC Year 2000 compliance is based solely on information provided by DTC. Accordingly, the District makes no representation as to the completeness or accuracy of the following information and neither the DTC Participants or the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (as used in the section entitled "Book Entry System", the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for each maturity of the Securities, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

DTC Year 2000 Compliance

DTC Management is aware that some computer applications, systems, and the like for processing data ("Systems") that are dependent upon calendar dates, including dates before, on, and after January 1, 2000, may encounter "Year 2000 Problems." DTC has informed its Participants and other members of the financial community (the "Industry") that it has developed and is implementing a program so that its Systems, as the same relate to the timely payment of distributions (including principal and income payments) to security holders, book-entry deliveries, and settlement of trades within DTC, continue to function appropriately. This program includes a technical assessment and remediation plan, each of which is complete. Additionally, DTC's plan includes a testing phase, which is expected to be completed within appropriate time frames.

However, DTC's ability to perform properly its services is also dependent upon other parties, including but not limited to issuers and their agents, as well as third party vendors from whom DTC licenses software and hardware, and third party vendors on whom DTC relies for information or the provision of services, including telecommunication and electrical utility service providers, among others. DTC has informed the Industry that it is contacting (and will continue to contact) third party vendors from whom DTC acquires services to: 1) impress upon them the importance of such services being Year 2000 compliant; and b) determine the extent of their efforts for Year 2000 remediation (and, as appropriate, testing) of their services. In addition, DTC is in the process of developing such contingency plans as it deems appropriate.

According to DTC, the foregoing information with respect to DTC has been provided to the Industry for informational purposes only and is not intended to serve as a representation, warranty, or contract modification of any kind.

Interest

Interest on the Bonds at the rates specified in the schedule of maturities set forth above and on the cover page hereof, calculated on the basis of a 360-day year comprised of twelve 30-day months, is payable on February 1, 2000 and semiannually thereafter on each August 1 and February 1.

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2007 are not subject to optional redemption prior to maturity. The Bonds maturing on or after August 1, 2008 are subject to redemption prior to their respective stated maturity dates at the option of the District, in whole or in part on a pro rata basis among maturities, on any interest payment date, on or after August 1, 2007, at the following prices, expressed as a percentage of the principal amount to be prepaid, plus accrued interest represented thereby to the redemption date:

<u>Redemption Dates</u> (both dates inclusive)	<u>Redemption Price</u>
August 1, 2007 through July 31, 2008	102%
August 1, 2008 through July 31, 2009	101%
August 1, 2009 and thereafter	100%

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2023 are subject to mandatory sinking fund redemption in part by lot on August 1 in each year commencing August 1, 2020, in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption shall be redeemed at the principal amount of such Bonds to be redeemed, plus accrued but unpaid interest, without premium.

<u>Sinking Fund</u> <u>Payment Date</u>	<u>2023 Term Bond</u> <u>Principal Amount</u> <u>To Be Redeemed</u>
August 1, 2020	\$ 65,000
August 1, 2021	65,000
August 1, 2022	70,000
August 1, 2023	75,000

The Bonds maturing on August 1, 2028 are subject to mandatory sinking fund redemption in part by lot on August 1 in each year commencing August 1, 2024, in accordance with the schedule set forth below. The Bonds so called for mandatory sinking fund redemption shall be redeemed at the principal amount of such Bonds to be redeemed, plus accrued but unpaid interest, without premium.

<u>Sinking Fund</u> <u>Payment Date</u>	<u>2028 Term Bond</u> <u>Principal Amount</u> <u>To Be Redeemed</u>
August 1, 2024	\$ 80,000
August 1, 2025	80,000
August 1, 2026	85,000
August 1, 2027	90,000
August 1, 2028	95,000

Selection of Bonds for Redemption. Whenever less than all of the outstanding Bonds of any one payment date are to be redeemed, the Paying Agent shall select the Bonds of such payment date to be redeemed by lot. For purposes of such selection, Bonds shall be deemed to be composed of \$5,000 (principal amount) multiples and any multiple thereof may be separately redeemed.

Notice of Redemption. Notice of redemption shall be by first class registered or certified mail or delivery, postage prepaid, to the registered owners of the Bonds, or if the registered owner is a syndicate, to the managing member of such syndicate, to a municipal registered securities depository and to a national information service that disseminates securities redemption notices, and by first class mail, postage prepaid, to the District and County and the respective owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books, at least thirty days, but not more than 60 days, prior to the redemption date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Bonds nor entitle the owner thereof to interest beyond the date given for redemption.

Payment

Principal is payable upon surrender of the Bonds in lawful money of the United States of America at the office of the Paying Agent. Interest on the Bonds shall be payable in like lawful money to the person whose name appears on the bond registration books of the Paying Agent as the registered owner thereof as of the close of business on the fifteenth (15th) day of the month immediately preceding an interest payment date, whether or not such day is a business day. Such interest is to be paid by check mailed to such owner at such address as appears on such registration books. However, as long as Bonds are held in book entry form only, interest payments shall be made by the Paying Agent in immediately payable funds to DTC. The Bonds shall no longer be deemed to be outstanding and unpaid if the District shall have made adequate provision for the payment, in accordance with the Bonds and the Resolution, of the principal and interest to become due thereon at and prior to maturity. Such provision for payment shall be deemed to be adequate if the District shall have irrevocably set aside, in a special trust fund or account, monies or direct or indirect and non-callable obligations of, or obligations guaranteed by, the full faith and credit of the United States of America, in which the District may lawfully invest its money, in an amount sufficient (including interest to accrue thereon) to pay when due the principal of and interest on the Bonds on and prior to the maturity date.

Security

The Bonds represent the general obligation of the District, and the Board of Supervisors of the County of Humboldt, California (the "County") has the power and is obligated to levy ad valorem taxes for payment of both principal and interest of the Bonds upon all property within the District subject to taxation by the District (except certain personal property which is taxable at limited rates), without limitation of rate or amount.

The annual tax rate will be based on the assessed value of taxable property in the District. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in the District may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as economic recession, deflation of land values, a relocation out of the District or financial difficulty or bankruptcy by one or more major property taxpayers, or the complete or partial destruction of such property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the District and necessitate a corresponding increase in the annual tax rate.

Purpose of the Issue

The proceeds of the Bonds are to be used to construct, repair and improve district facilities including: modernizing for technology; removing asbestos; replacing roofs, heating systems and rest rooms; and constructing new classrooms/facilities, a library and a community center.

Annual Debt Service

Exhibit 2 presents a schedule of the annual debt service for the Bonds.

EXHIBIT 2 SOUTH BAY UNION SCHOOL DISTRICT GENERAL OBLIGATION BONDS 1998 ELECTION

ANNUAL DEBT SERVICE

<u>Year Ending August 1</u>	<u>Principal*</u>	<u>Interest</u>	<u>Annual Debt Service</u>
2000	\$ 10,000.00	\$ 92,080.78	\$ 102,080.78
2001	25,000.00	75,320.00	100,320.00
2002	30,000.00	73,545.00	103,545.00
2003	30,000.00	71,415.00	101,415.00
2004	30,000.00	69,285.00	99,285.00
2005	30,000.00	67,155.00	97,155.00
2006	35,000.00	65,025.00	100,025.00
2007	35,000.00	62,540.00	97,540.00
2008	35,000.00	61,105.00	96,105.00
2009	40,000.00	59,652.50	99,652.50
2010	40,000.00	57,972.50	97,972.50
2011	40,000.00	56,252.50	96,252.50
2012	45,000.00	54,492.50	99,492.50
2013	45,000.00	52,490.00	97,490.00
2014	50,000.00	50,465.00	100,465.00
2015	50,000.00	48,190.00	98,190.00
2016	50,000.00	45,890.00	95,890.00
2017	55,000.00	43,565.00	98,565.00
2018	60,000.00	40,980.00	100,980.00
2019	60,000.00	38,130.00	98,130.00
2020	65,000.00	35,250.00	100,250.00
2021	65,000.00	32,000.00	97,000.00
2022	70,000.00	28,750.00	98,750.00
2023	75,000.00	25,250.00	100,250.00
2024	80,000.00	21,500.00	101,500.00
2025	80,000.00	17,500.00	97,500.00
2026	85,000.00	13,500.00	98,500.00
2027	90,000.00	9,250.00	99,250.00
2028	<u>95,000.00</u>	<u>4,750.00</u>	<u>99,750.00</u>
Total:	\$ 1,500,000.00	\$ 1,373,300.78	\$ 2,873,300.78

*Includes mandatory sinking fund payments. See "Redemption" herein.

Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District and publicly available at the time of the request (an "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. An Annual Report, consisting of the most recently available documents of the type to be included in the Annual Report at the time the request is received, will be provided to any person who requests it. The notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository or with the Municipal Securities

Rulemaking Board, and with the State information repository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

Investment of Bond Proceeds

A portion of the proceeds from the sale of the Bonds shall be deposited in the County treasury to the credit of the District's 1998 Election South Bay Union School District General Obligation Bonds Construction Fund" (the "Construction Fund") and, together with other bond proceeds and funds of the District required to be deposited therein, shall be accounted for separately and distinctly from all other District and County funds but may be commingled for investment purposes. The proceeds shall be used solely for the purpose for which the Bonds are issued. The accrued interest and any premium received from the sale of the Bonds, together with tax collections deposited for the payment of the District's bonds, shall be kept separate and apart in the 1998 Election South Bay Union School District General Obligation Bonds Debt Service Fund (the "Debt Service Fund") and used only for payments of principal and interest on the Bonds. Interest earned on the investment of monies held in the Debt Service Fund shall be retained in the Debt Service Fund and used to pay principal and interest on the Bonds when due.

Monies in the Construction Fund and the Debt Service Fund shall be invested for the District by the County Treasurer, acting as the ex-officio treasurer of the District, in the pooled investment fund of the County in accordance with the County's investment policy, the current version of which is included herein as Appendix E.

THE DISTRICT

The information in this and other sections concerning the District's finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE BONDS—Security" herein.

General Information

South Bay Union School District was created in 1952 and covers an area of approximately fifty three square miles in Humboldt County. The District operates two elementary schools and has approximately ninety employees. Average daily attendance from 1991-92 through 1998-99 is reported in the following exhibit.

**EXHIBIT 3
AVERAGE DAILY ATTENDANCE
SOUTH BAY UNION SCHOOL DISTRICT**

<u>Fiscal Year</u>	<u>Average Daily Attendance</u>
1991-92	634
1992-93	609
1993-94	632
1994-95	596
1995-96	595
1996-97	575
1997-98	562
1998-99	580 ⁽¹⁾

(1) Estimate

Source: South Bay School District

Employee Relations

In the fall of 1974, the California State Legislature enacted a public school employee collective bargaining law known as the Rodda Act which became effective in stages on January 1, 1976, April 1, 1976 and July 1, 1976. This law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The teachers of the District have selected the California Teachers Association as their exclusive bargaining agent. They are currently operating under a contract which expired on June 30, 1998. Negotiations on a new contract are ongoing.

The classified personnel of the District have selected the California School Employees Association as their exclusive bargaining agent, and are covered by a contract that expired on June 30, 1998. Negotiations on a new contract are ongoing. The management and confidential employees are not represented by a bargaining unit.

Pension Plans

The District participates in the State of California Teachers Retirement System ("STRS"). This plan covers basically all full-time certificated employees. The District's contribution to STRS for Fiscal Year 1997-98 totaled approximately \$114,643 and in Fiscal Year 1998-99 is expected to be approximately \$131,418. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The District also participates in the State of California Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. The District's contribution to PERS for Fiscal Year 1997-98 totaled approximately \$20,639 and for Fiscal Year 1998-99 is expected to be approximately \$35,838. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California schools.

Year 2000 Computer Compliance

Many computer systems and applications currently use two digits to define the applicable year. As a result, date-sensitive systems may recognize the year 2000 as 1900 or not at all, which could cause miscalculations or system failures. The information services manager of the County will be reporting to the Humboldt County Board of Supervisors on the status of all Year 2000 remediation projects. In the case of most mission-critical applications, funds have been appropriated for the remediation project.

There are a number of other critical and supportive systems for which the Humboldt County Board of Supervisors will be asked to fund the remediation efforts. The County has implemented BiTech Software, Inc.'s Integrated Financial Accounting System (IFAS) for its financial accounting and the IFAS system is fully Year 2000 compliant by June 30, 1999. Moreover, the County anticipates that all internal systems will be year 2000 compliant by October 1999, and that all external interfaces (i.e. with other government agencies and private institutions) will be properly modified by October 1999. In addition, the County is reviewing its vendors, suppliers, and other third parties with whom it has substantial financial relationships to determine whether any such parties expect to experience year 2000 problems with consequences to entities which would have a material adverse effect on the County. However, there can be no assurance that the systems or products of other companies on which the County's systems rely will be timely converted or that any such failure to convert by a vendor, customer or another company would not have an adverse effect on the County's systems.

The District has not completed an assessment of which of its operations may be affected by the Year 2000 Problem. The District has made no assessment of the computer systems operated by other entities named above, and is not aware of any risk or cost assessments which may have been made by those entities except DTC (see "DTC Year 2000 Compliance") and the County as described herein. Although the District believes that the County, DTC, and DTC Participants are working on a solution of the Year 2000 Problem, the District is unable to give any assurance that such a solution will be reached prior to the payment on the Bonds due on February 1, 2000. For more information about DTC's approach to the Year 2000 Problem, see "DTC Year 2000 Compliance" herein.

DISTRICT DEBT STRUCTURE

Short-Term Borrowing

The District has no outstanding short term debt.

Lease Obligations

The District has entered into one operating lease with a lease terms in excess of one year. The lease is for a portable building. Future minimum lease payments are as follows:

Year Ending <u>June 30</u>	Lease <u>Payments</u>
1999	\$ 14,083
2000	14,083
2001	14,083
2002	<u>2,576</u>
Total	\$ 44,825

Long-Term Borrowing

Excluding the Bonds the District has no outstanding long-term debt.

Contained within the District's boundaries are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue, and special assessment obligations. The direct and overlapping debt of the District is shown in Exhibit 4. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the debt statement.

The District has never defaulted on the payment of principal or interest on any of its indebtedness.

The first column in the following table names the public agencies which have outstanding debt as of the date of the report and whose territories overlap the District. The second column shows what percentage of the overlapping agency's assessed valuation is within the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table)

produces the amount shown in Column 3, which is the apportionment of each overlapping agency's outstanding debt to property in the District.

**EXHIBIT 4
STATEMENT OF DIRECT AND OVERLAPPING DEBT
SOUTH BAY UNION SCHOOL DISTRICT**

1998-99 Assessed Valuation: \$243,259,879

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/15/98</u>
South Bay Union School District	100	\$ -- (1)
Humboldt County Service Area No. 3.	100	11,000
King Salmon Sanitary District	100	9,000
South Bay County Sanitation District	100	<u>6,000</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$26,000
<u>OVERLAPPING GENERAL FUND OBLIGATION DEBT:</u>		
Humboldt County Certificates of Participation	4.41%	849,338
Redwoods Joint Community College District Certificates of Participation	3.070	57,409
Eureka High School District Certificates of Participation	13.652	<u>9,556</u>
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$916,303
COMBINED TOTAL DEBT		\$936,303 (2)

- (1) Excludes general obligation bonds to be sold.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 1998-99 Assessed Valuation:

Direct Debt	--- %
Total Direct and Overlapping Tax and Assessment Debt	0.01%
Combined Total Debt Service	0.38%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/98: \$0

DISTRICT FINANCIAL INFORMATION

District Budget

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

Under current law, the District approves an adopted budget by July 1 of each fiscal year. The following exhibit shows the District's estimated actual revenues and expenditures for Fiscal Year 1997-98 and projected budget for Fiscal Year 1998-99.

EXHIBIT 5 GENERAL FUND BUDGET FISCAL YEARS 1997-98 AND 1998-99 SOUTH BAY UNION SCHOOL DISTRICT

	FY 1997-98 <u>Actual</u>	FY 1998-99 <u>Budget</u>
Beginning Balance	\$ 190,941	\$ 119,026
Revenues		
Revenue Limit	\$ 2,052,602	\$ 2,097,907
Federal Revenue	163,091	162,930
Other State Revenue	844,547	829,460
Other Local Revenue	49,888	15,849
Transfer In	7,352	1,651
Total Revenue	<u>\$ 3,117,480</u>	<u>\$ 3,107,797</u>
Total Resources	\$ 3,308,421	\$ 3,226,823
Expenditures		
Certificated Salaries	\$ 1,615,836	\$ 1,676,038
Classified Salaries	431,064	426,059
Benefits	525,524	587,159
Supplies	156,104	188,364
Operating Expenses	237,078	194,931
Capital Outlay	160,920	66,666
Other Outgo	42,373	18,045
Transfer Out	20,496	15,041
Total Expenditures	<u>\$ 3,189,395</u>	<u>\$ 3,172,303</u>
Ending Balance	\$ 119,026	\$ 54,520

Source: South Bay Union School District

Exhibit 6 shows the District's revenue limit for the period 1995-96 through 1998-99. See "State Funding of Education" for more information about revenue limits.

**EXHIBIT 6
REVENUE LIMITS
FISCAL YEARS 1995-96 THROUGH 1998-99 (1)
SOUTH BAY UNION SCHOOL DISTRICT**

<u>Fiscal Year</u>	<u>Revenue Limit (2)</u>
1995-96	\$ 3,996
1996-97	3,808
1997-98	3,993
1998-99	3,852

- (1) The revenue limit total pertains to general education purposes and excludes categorical aid programs, certain capital outlays, adult education, and other special purpose programs.
(2) State deficit has been applied.

Source: South Bay Union School District

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the State of California Education Code, is to be followed by all California school districts.

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual, measurable and/or available to finance operations. Delinquent taxes that are not received until after the fiscal year-end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

District accounting is organized on the basis of fund groups, with each group consisting of a separate set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the General Fund which accounts for all financial resources for the educational programs not requiring a special type of fund. The District's fiscal year begins on July 1 and ends on June 30.

The District's independent auditor is Storre, Wagner & McCauley of Eureka, California.

PROPERTY TAXATION

Property Tax Collection Procedures

In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state assessed public utilities' property and property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax levied on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the

taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured property are entered separately on the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Department of Finance.

Property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. A bill enacted in 1983, SB 813 (Statutes of 1983, Chapter 498), however, provided for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Thus, this legislation eliminated delays in the realization of increased property taxes from new assessments. As amended, SB 813 provided increased revenue to taxing jurisdictions to the extent that supplemental assessments of new construction or changes of ownership occur subsequent to the January 1 lien date and result in increased assessed value.

Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid on the following August 31. A ten percent (10%) penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Taxation of State-Assessed Utility Property

The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization ("SBE") and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as "unitary property", a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year.

SBE assessment of investor-owned gas and electric companies, incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, Inc. is subject to a Settlement Agreement, dated May 1, 1992, among those companies, the SBE and all California counties (the "Agreement"), under which, for the fiscal years 1992-1993 through 1999-2000, the SBE sets the assessed property value equal to historical cost less depreciation less 25% of each utility's deferred tax reserve (all as defined in the Agreement). The Agreement provides that this valuation method is not intended to be precedent for calculating fair market value in years after the term of the Agreement. The Agreement was in response to a February 1, 1991, Sacramento Superior Court decision in AT&T

Communications of California, Inc., et al v. State Board of Equalization, in which the court held that the SBE's valuation approaches had overvalued AT&T's unitary property, and ordered AT&T's statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion. The Agreement was approved by the Sacramento Superior Court on July 14, 1992 in a validation action brought by the county parties.

The California electric utility industry is currently undergoing significant changes in its structure and in the way in which components of the industry are or are not regulated. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed in the future and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies.

Teeter Plan

The Board of Supervisors of the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, "to accomplish a simplification of the tax-levying and tax apportioning process and an increased flexibility in the use of available cash resources." This alternative method is used for distribution of the ad valorem property tax revenues.

The County will be responsible for determining the amount of the ad valorem tax levy on each parcel in the District, which will be entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County auditor determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund's credit. Such monies may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected.

Under the Teeter Plan, the County establishes the Tax Loss Reserve Fund. The County determines which monies in the County treasury (including those credited to the Tax Loss Reserve Fund) shall be available to be drawn onto the extent of the amount of uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan monies are distributed to the apportioned tax resources accounts.

When tax-defaulted property is sold, the taxes and assessments which constitute the amount required to redeem the property are prorated between apportioned (Teeter) levies and unapportioned (or non-Teeter) levies. The pro rata share for apportioned levies is distributed to the tax losses reserve fund. The pro rata share for unapportioned levies is prorated between tax levies and assessment levies and then distributed to the applicable funds.

If the tax losses reserve fund exceeds 3% of the total taxes and assessments levied on the secured roll for that year, the amounts coming in after it reaches 3% are credited to the County's general fund. Upon adoption of a resolution by the Board of Supervisors of the County by September 1 of any fiscal year, the 3% tax losses reserve fund threshold may be reduced to 50% of the total delinquent taxes and assessments for the previous year.

The Teeter Plan is to remain in effect unless the Board of Supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two thirds of the participating revenue districts in the County, in which event the Board of Supervisors is to order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year.

The Board of Supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency or assessment levying agency in the County if the rate of

secure tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency.

In the event that the Teeter Plan were terminated, the amount of the levy of ad valorem taxes in the District would depend upon the collections of the ad valorem property taxes and delinquency rates experienced with respect to the parcels within the District.

So long as the Teeter Plan remains in effect, the District's receipt of revenues with respect to the levy of ad valorem property taxes will not be dependent upon actual collections of the ad valorem property taxes by the County. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances (as described above) terminate the Teeter Plan in its entirety or terminate the Teeter Plan as to the District if the delinquency rate for all ad valorem property taxes levied within the District in any year exceeds 3%.

Largest Taxpayers

Exhibit 7 lists the top ten secured taxpayers within the District for 1998-99.

**EXHIBIT 7
1998-99 TOP TEN LOCAL SECURED PROPERTY TAXPAYERS
SOUTH BAY UNION HIGH SCHOOL DISTRICT**

<u>Property Owner</u>	<u>Primary Land Use</u>	1998-99 Assessed <u>Valuation</u>	<u>% of Total (1)</u>
1. Peter B. and Dorothea Perrin	Mobile Home Park	\$ 2,608,988	1.12%
2. Stanwood A. Murphy, Jr.	Industrial	2,374,076	1.02%
3. Ocean View Cemetery	Cemetery	2,198,731	0.94%
4. Patrica A. Kelly	Apartments	1,960,210	0.84%
5. Redwood Care Centers, Inc.	Commercial	1,741,650	0.75%
6. LET	Agricultural	1,564,156	0.67%
7. Steven A. and Eunice A. Lester	Mobile Home Park	1,298,623	0.56%
8. Naim and Louise Obeji	Mobile Home Park	1,176,235	0.51%
9. Simpson Redwood Co.	Agricultural	1,162,548	0.50%
10. Susan Bingham	Apartments	884,914	0.38%

(1) 1998-99 Local Secured Assessed Valuation: \$232,861,377

Source: California Municipal Statistics, Inc.

Historic Assessed Valuation

The District has a 1998-99 gross assessed valuation of \$243,259,879 accounting for approximately 3.91% of the total assessed valuation of the County. Shown in the following exhibit are net historical assessed values for the District and the County.

**EXHIBIT 8
HISTORIC ASSESSED VALUATIONS
SOUTH BAY UNION SCHOOL DISTRICT**

<u>Fiscal Year</u>	<u>District (1) Assessed Valuations</u>	<u>County (2) Assessed Valuations</u>
1989-90	\$ 135,320,056	\$ 4,032,504,530
1990-92	146,101,583	4,296,563,493
1991-92	161,899,813	4,591,567,990
1992-93	176,400,931	4,883,666,629
1993-94	188,834,574	5,058,579,658
1994-95	201,877,650	5,284,763,677
1995-96	212,831,881	5,599,498,609
1996-97	221,408,404	5,809,118,209
1997-98	232,416,674	6,003,952,436
1998-99	243,259,879	6,220,206,762

- (1) Includes homeowners exemptions, excludes other exemptions
(2) Net of all exemptions

Sources: California Municipal Statistics, Inc.

LIMITATIONS ON TAX REVENUES

Principal of and interest on the Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. (See "THE BONDS—Security" herein.) Articles XIII A and XIII B, XIII C and XIII D of the Constitution, Propositions 62, 98, 111, 187, and 218, and certain other provisions of law discussed herein, are summarized in this section and in the section entitled "State of California Finances" to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of debt service on the Bonds. The tax levied by the County for payment of the Bonds was approved by the District's voters in compliance with Article XIII A, Article XIII C, and all applicable laws.

Property Tax Rate Limitations - Article XIII A

On June 6, 1978, the California voters added Article XIII A to the California Constitution which limits the amount of any ad valorem taxes on real property to one percent (1%) of its full cash value, except that additional ad valorem property taxes may be levied to pay debt service on indebtedness approved prior to July 1, 1978 and (as a result of an amendment to Article XIII A approved by California voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978, by two thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment period". This cash value may be increased at a rate not to exceed two percent (2%) per year to account for inflation.

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

The California Supreme Court and the U.S. Supreme Court have upheld the constitutionality of Article XIII A.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any ad valorem property tax for their general purposes. The 1% property tax is automatically levied annually by the county and distributed according to a formula among taxing agencies. Any special tax to pay voter approved indebtedness is levied in addition to the basic 1% property tax.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 Fiscal Year, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value, under which a 1% tax rate was expressed as \$4.00 per \$100 of assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the basic 1% tax rate is expressed as \$1.00 per \$100 of taxable value.

Appropriation Limitation - Article XIII B

On November 6, 1979, the voters of the State approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the State Constitution. On June 5, 1990, the voters approved Proposition 111, which amended Article XIII B in certain respects. Under Article XIII B, as amended, state and local government entities each have an annual "appropriations limit" which limits the ability to spend certain monies which are called "appropriations subject to limitation" (consisting of most tax revenues and certain state subventions, together called "proceeds of taxes," and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of monies which are excluded from the definition of "appropriations limit," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by two thirds of the voters. The "appropriations limit" is adjusted annually for changes in the cost of living and in population, for transfers in the financial responsibility for providing services, and in the case of certain declared emergencies. If a school district receives any proceeds of taxes in excess of its appropriations limit, it may, by resolution of the school district's governing board, increase its appropriations limit to equal that amount (provided that the State has excess appropriations limit of its own in that fiscal year).

California Constitution Article XIII C and Article XIII D (Proposition 218)

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending

or increasing any special tax beyond its maximum authorized rate without a two thirds vote. Article XIIC also provides that no tax may be assessed on property other than ad valorem property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIIC 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 mandatory, statutory duty on the County Treasurer to levy a property tax sufficient to pay debt service on the Bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the Bonds. Legislation adopted in 1997 provides that Article XIIC 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 XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID 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 District. No developer fees imposed by the District are pledged or expected to be used to pay the Bonds.

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.

Proposition 62

On November 4, 1986, California voters adopted Proposition 62, a statutory initiative which amended the California Government Code by the addition of Sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution. The requirements of Proposition 62 have generally been superseded by the enactment of Article XIIC of the Constitution (Proposition 218) in 1996.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Although by its terms, Proposition 62 applies to school districts, because the District does not receive any material amount of tax revenues from any tax levied in contradiction to Proposition 62, the District has not experienced nor does it expect to experience any substantive adverse financial impact as a result of the passage of this initiative or the *Santa Clara* decision.

Future Initiatives

Article XIII A, Article XIII B, Proposition 98, Proposition 111, Proposition 218 and Proposition 62 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the District's finances or the District's ability to raise or expend revenues.

STATE OF CALIFORNIA FINANCES

The information in this section concerning the State funding of public education is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this official statement that the principal of or interest on the bonds is payable from State revenues. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof.

General

The Constitution of the State of California (the "State") requires that from all State revenues there shall first be set apart the monies to be applied for support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

State Funding of Education

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

As part of the 1992-93 State budget resolution, the State required counties, cities, and special districts to shift property tax revenues to school districts in lieu of direct payments to school districts from the State General Fund. The 1993-94 State budget adopted by the State Legislature on June 23, 1993 required a similar shift of property taxes to school districts from local government entities. As a result of these property tax shifts, the State's share of District revenues has declined, with the District becoming relatively more dependent on local property tax revenue. Nonetheless, the influence of the State in the District's funding will remain substantial. Regardless of the shifts in property tax revenues in recent years, and the decrease in such revenues, certain levels of funding are guaranteed. See "Proposition 98 and Proposition 111" herein.

1996-97 Fiscal Year. The 1996-97 State budget signed by the Governor on July 15, 1996 was based on anticipated continued economic growth in California and increased State revenues. The 1996-97 State budget called for additional revenues for K-12 education, including a 3.21% cost-of-living adjustment to revenue limit apportionments. Other features of the 1996-97 State budget for K-12 education included one-time and block grant funding for numerous programs, including the following: (1) \$771 million to reduce class size in kindergarten through third grades; (2) \$178 million to equalize and increase revenue limits; (3) \$387 million to provide site block grants to each school in the State for one-time expenditures; (4) \$200 million for per-pupil allocation for certain costs for deferred

maintenance, instructional materials, and educational technology; (5) \$200 million for facilities for reducing class size in primary grades; and (6) \$167 million for reading improvement in elementary grades.

1997-98 Fiscal Year. The 1997-98 State budget, signed by the Governor on August 18, 1997, increased expenditures for public education. State General Fund support for K-12 education increased by \$.9 billion, allowing schools to receive statutory cost-of-living increases for revenue limit apportionments, special education, and child development. FY 1997-98 general fund K-12 per-pupil local assistance (Proposition 98) was \$5,108, an increase from \$4,904 in FY 1996-97. The budget also expanded the Class Size Reduction Program to include the fourth grade.

1998-99 Fiscal Year. The adopted State budget for 1998-99 continues the trend of increasing State funding for public education. Total K-12 funding from all sources is \$40.4 billion or \$5,735 per pupil. For the first time, the 1998-99 State budget funds schools in excess of the Proposition 98 minimum funding guarantee. The budget requires schools to provide a minimum of 180 days of instruction per year.

Governor's Proposed 1999-2000 Budget. The Governor's proposed budget for 1999-2000 envisions increased taxpayer support for public education. Under the Governor's proposed budget, Proposition 98 per-pupil spending will increase to \$5,944 (a 4.4% average increase over 1997-98), and total K-12 funding from all sources will be \$42.8 billion (an increase of \$2.8 billion over 1998-99).

California Teachers' Association v. Gould. During several years in the early 1990s, the State realized less tax receipts than it had previously budgeted, so that in each of those years public education received more in funding than its minimum entitlement under Proposition 98. The State legislature characterized the overfunded amounts as "loans" to be repaid from the Proposition 98 entitlement in future years. The aggregate amount of these "loans" is approximately \$1.76 billion. The validity of the loan characterization and repayment mechanism were challenged by the California Teachers' Association ("CTA"), which sought to void the obligation to repay the loan amounts.

On April 26, 1994, a County of Sacramento superior court entered a judgement that K-14 districts are not obligated to repay the inter-year loans. The decision was appealed by the State, and pending appeal CTA and the State reached a settlement which became final on April 12, 1996. Pursuant to the settlement agreement, no new inter-year loans will be created; the existing loans are required to be repaid over an eight-year period ending in 2001-02, with K-14 schools contributing \$825 million from funds allocated to education under Proposition 98, and the State contributing the balance of \$938 million. The final Proposition 98 funding levels for the years in dispute will be certified, and the schools' contribution will be counted toward the Proposition 98 guarantee in future years.

State Lottery

In the November 1984 general election, the voters of the State approved a constitutional amendment establishing a state lottery (the "Lottery"), the net revenues of which are to be used to supplement money allocated to public education. The amendment stipulated that the funds be used for the education of students and cannot be used for non-instructional purposes such as the acquisition of real property, construction of facilities or the financing of research. Lottery net revenues (gross revenues less prizes and administrative expenses) are allocated by computing an amount per ADA or full-time equivalent ("FTE"). This figure is derived by dividing the total net revenues figure by the total ADA for grades K-12 and community colleges, and by the total FTE for the University of California system and the California State University and College system. Each entity receives an amount equal to its total ADA or FTE, as applicable, multiplied by the per ADA or FTE figure.

Proposition 98 and Proposition 111

On November 8, 1988 the voters approved Proposition 98, an initiative constitutional amendment and statute called "The Classroom Instructional Improvement and Accountability Act" ("Proposition 98"). In addition to adding certain provisions to the Education Code, Proposition 98 also amended Article XIII B and Section 8 of Article XVI of the State Constitution and added Section 8.5 of Article XVI to the State Constitution, the effects of which are to establish a minimum level of State funding for school districts, to allocate to school districts, within limits, State revenues in excess of the State's appropriations limit and to exempt such excess funds from school district appropriations limits.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

Article XIII B, as amended by both Proposition 98 and Proposition 111, is discussed above under "Appropriation Limitation - Article XIII B."

The provisions of Sections 8 and 8.5 of Article XVI, as added to and/or amended by Propositions 98 and 111, may be summarized as follows:

- a) State funding of Schools (Section 8). Monies to be applied by the State for the support of school districts must be at a level equal to the greater of the following "tests":
 - (i) The amount which, as a percentage of the State general fund ("General Fund") revenues which may be appropriated pursuant to Article XIII B, equals the percentage of General Fund revenues appropriated for school districts in fiscal year 1986/87;
 - (ii) The amount actually appropriated to school districts in the prior fiscal year from General Fund proceeds and from allocated local proceeds of taxes (excluding any excess state revenues allocated pursuant to Section 8.5), adjusted for changes in enrollment and for the change in the cost of living (operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus one-half of one percent);
 - (iii) The amount actually appropriated to school districts in the prior fiscal year from General Fund proceeds and from allocated local proceeds of taxes (excluding any excess State revenues allocated pursuant to Section 8.5) adjusted for changes in enrollment and for the change in per capita General Fund revenues, and, in addition, an amount equal to one-half of one percent times the prior year appropriations (excluding any excess State revenues) adjusted for changes in enrollment (operative only in a fiscal year in which the percentage growth in California per capita personal income is greater than the percentage growth in per capita General Fund revenues plus one-half of one percent).

If the third test is used in any year the difference between the third test and the second test will become a "credit" to schools which will be paid in future years when the General Fund revenue growth exceeds personal income growth.

The State legislature may, by a two-thirds vote of both houses and with the Governor's concurrence, suspend for one year the minimum funding provisions for school districts as provided for in Section 8.

- b) Allocations to the State School Fund (Section 8.5). In addition to the amounts applied to school districts under the tests discussed above, the State Controller is directed to allocate

available excess State revenues (pursuant to Article XIII B) to the State School Fund. However, no such allocation is required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditures per student of the 10 states with the highest annual expenditures per student and the average class size equals or is less than the average class size of the 10 states with the lowest class size.

Such allocations do not constitute appropriations subject to Article XIII B limitations and are to be made in an equal amount per enrollment.

Proposition 187

On November 8, 1994, California voters approved an initiative statute ("Proposition 187") generally directed at curbing taxpayer spending for various public programs, including public education, to the extent those programs benefit illegal aliens. Among other things, Proposition 187 would have required school officials to verify the legal status of each student and to deny education services to illegal aliens. Enforcement costs to local districts were potentially large. A number of lawsuits filed in state and federal court challenging the validity of Proposition under the California and U.S. Constitutions were consolidated for trial in the U.S. District Court. In November 1995, the District Court ruled various provisions of the initiative unconstitutional, particularly those affecting public schools. In March 1998, the court overturned the remaining provisions of Proposition 187. An appeal was filed by the California State Attorney General in the U.S. Court of Appeals in the 9th Circuit on March 25, 1998. The District cannot predict what will be the ultimate outcome of this litigation or what the ultimate fiscal impact may be on the District.

LEGAL MATTERS

Tax Exemption

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

In further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

LEGAL OPINION

Legal Opinion

The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel to the District, approving the validity of the Bonds, will be supplied to the original purchasers of the Bonds without cost. A copy of the legal opinion will be printed on each Bond, without charge to the successful bidder.

Bond Counsel's employment is limited to a review of the legal proceedings required for authorization of the Bonds and to rendering an opinion as to the validity of the Bonds and the exclusion from gross income for federal income tax purposes of interest on the Bonds. The opinion of Bond Counsel will not consider or extend to any documents, agreements, representations, offering circular, or other material of any kind concerning the Bonds. Bond Counsel has undertaken no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and expresses no opinion relating thereto.

Legality for Investment

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

Absence of Litigation

At the time of payment for and delivery of the Bonds, the Underwriter will be furnished with a certificate of the District that to the best knowledge of the officer of the District executing the same there is no litigation pending affecting the validity of the Bonds.

RATING

Moody's Investors Service ("Moody's") has assigned the rating shown on the cover page hereof to the Bonds. Such rating reflects only the view of Moody's and an explanation of the significance of such rating may be obtained only from Moody's at the following address: Moody's Investors Service, 99 Church Street, New York, New York, 10007. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency, if in the judgement of the rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Everen Securities Inc. (the "Underwriter") has agreed to purchase the Bonds at a price of \$1,485,633.58, which price is the par amount of the Bonds less a discount of \$15,000, plus accrued interest of \$633.58.

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

FINANCIAL ADVISOR

Andrew Ach & Associates, Inc. of San Francisco, California served as Financial Advisor to the District with respect to the sale of the Bonds. Andrew Ach & Associates, Inc. assisted the District in matters relating to the planning, structuring, and sale of the Bonds and will receive compensation contingent upon the sale and delivery of the Bonds. Andrew Ach & Associates, Inc. provides financial advisory services and does not engage in the underwriting, marketing, or trading of municipal securities or other negotiable instruments.

MISCELLANEOUS

Additional information may be obtained from the District by contacting the South Bay Union School District, Eureka, California, Attention: Superintendent or by contacting the financial advisor, Andrew Ach & Associates, Inc., San Francisco, California.

At the time of delivery and payment for the Bonds, an authorized representative of the District will deliver a certificate stating that to the best of his or her knowledge this Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. Such certificate will also certify that to the best of his or her knowledge from the date of this Official Statement to the date of such delivery and payment there was no material adverse change in the information set forth herein.

Andrew Ach & Associates, Inc. has acted as financial advisor to the District in conjunction with this offering. The delivery of this Official Statement has been authorized by the District.

SOUTH BAY UNION SCHOOL DISTRICT

By: /s/ Paul Johnson
Superintendent

**APPENDIX A - EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE
DISTRICT FOR FISCAL YEAR 1997-98**

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RICHARD C. STORRE
WILLIAM D. WAGNER
J. WILLIAM MCAULEY

ALFRED C. BEAN (RET.)
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Storre, Wagner & McAuley
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
South Bay Union School District

We have audited the accompanying general-purpose financial statements of the South Bay Union School District as of and for the year ended June 30, 1998, as listed in the table of contents. These general-purpose financial statements are the responsibility of the South Bay Union School District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District does not maintain a complete record of the historical cost of its fixed assets. Accordingly, the financial statements do not include the general fixed assets group of accounts, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Bay Union School District at June 30, 1998, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 1998, on our consideration of South Bay Union School District's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grants.

Storre, Wagner & McAuley

October 30, 1998

**SOUTH BAY UNION SCHOOL DISTRICT
 COMBINED BALANCE SHEET —
 ALL FUND TYPES AND ACCOUNT GROUPS
 June 30, 1998**

Governmental Fund Types

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS			
Cash in County Treasury	\$53,931	\$422,242	\$175,561
Cash in bank	—	—	—
Cash in revolving fund	1,000	—	—
Accounts receivable:			
Federal government	32,899	21,816	—
State government	55,472	13,930	—
Interest	4,821	5,675	2,562
Other	6,569	—	—
Stores inventory - food	—	5,040	—
Amount to be provided for retirement of long-term debt	—	—	—
TOTAL ASSETS	<u><u>\$154,692</u></u>	<u><u>\$468,703</u></u>	<u><u>\$178,123</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts payable	\$10,308	\$ —	\$ —
Accrued expenses	3,333	—	—
Deferred revenue	22,025	—	—
Due to student body	—	—	—
Compensated absences	—	—	—
Capital lease	—	—	—
TOTAL LIABILITIES	<u><u>35,666</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
FUND EQUITY			
Reserved for:			
Revolving fund	1,000	—	—
Restricted programs	117,600	—	—
Stores inventory	—	5,040	—
Unreserved:			
Undesignated	426	463,663	178,123
TOTAL FUND EQUITY	<u><u>119,026</u></u>	<u><u>468,703</u></u>	<u><u>178,123</u></u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$154,692</u></u>	<u><u>\$468,703</u></u>	<u><u>\$178,123</u></u>

See accompanying notes.

<u>Fiduciary Fund Types</u>	<u>Account Group</u>	<u>Total (Memorandum Only) June 30, 1998</u>
<u>Agency</u>	<u>Long-Term Debt</u>	
\$ —	\$ —	\$651,734
13,604	—	13,604
—	—	1,000
—	—	54,715
—	—	69,402
—	—	13,058
—	—	6,569
—	—	5,040
—	47,185	47,185
<u>\$13,604</u>	<u>\$47,185</u>	<u>\$862,307</u>
\$ —	\$ —	\$10,308
—	—	3,333
—	—	22,025
13,604	—	13,604
—	6,708	6,708
—	40,477	40,477
<u>13,604</u>	<u>47,185</u>	<u>96,455</u>
—	—	1,000
—	—	117,600
—	—	5,040
—	—	642,212
—	—	765,852
<u>\$13,604</u>	<u>\$47,185</u>	<u>\$862,307</u>

See accompanying notes.

**SOUTH BAY UNION SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE —
 ALL GOVERNMENTAL FUND TYPES
 For the Year Ended June 30, 1998**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total (Memorandum Only) June 30, 1998</u>
REVENUES				
Revenue limit sources:				
State apportionments	\$1,199,671	\$ —	\$ —	\$1,199,671
Local sources	852,931	—	—	852,931
TOTAL REVENUE LIMIT	<u>2,052,602</u>	<u>—</u>	<u>—</u>	<u>2,052,602</u>
Federal revenues	163,091	126,356	—	289,447
Other state revenues	844,547	20,822	—	865,369
Other local revenues	49,888	66,319	10,386	126,593
TOTAL REVENUES	<u>3,110,128</u>	<u>213,497</u>	<u>10,386</u>	<u>3,334,011</u>
EXPENDITURES				
Certificated salaries	1,615,836	—	—	1,615,836
Classified salaries	431,064	81,423	—	512,487
Employee benefits	525,524	23,499	—	549,023
Books and supplies	156,104	77,905	—	234,009
Services and other				
operating expenditures	237,078	5,711	620	243,409
Capital outlay	160,920	15,253	7,267	183,440
Capital lease:				
Principal	14,650	—	—	14,650
Interest	2,953	—	—	2,953
Other	24,770	—	—	24,770
TOTAL EXPENDITURES	<u>3,168,899</u>	<u>203,791</u>	<u>7,887</u>	<u>3,380,577</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(58,771)</u>	<u>9,706</u>	<u>2,499</u>	<u>(46,566)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	7,352	20,496	—	27,848
Operating transfers out	(20,496)	(7,352)	—	(27,848)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(13,144)</u>	<u>13,144</u>	<u>—</u>	<u>—</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(71,915)</u>	<u>22,850</u>	<u>2,499</u>	<u>(46,566)</u>
FUND BALANCE, JULY 1, 1997	190,941	445,853	175,624	812,418
FUND BALANCE, JUNE 30, 1998	<u>\$119,026</u>	<u>\$468,703</u>	<u>\$178,123</u>	<u>\$765,852</u>

See accompanying notes.

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**SOUTH BAY UNION SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE — BUDGET AND ACTUAL —
ALL GOVERNMENTAL FUND TYPES
For the Year Ended June 30, 1998**

	<u>General Fund</u>			<u>Special Revenue Funds</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>
REVENUES					
Revenue limit sources:					
State apportionments	\$1,117,166	\$1,199,671	\$82,505	\$ —	\$ —
Local sources	941,861	852,931	(88,930)	—	—
TOTAL REVENUE LIMIT	<u>2,059,027</u>	<u>2,052,602</u>	<u>(6,425)</u>	<u>—</u>	<u>—</u>
Federal Revenues	171,018	163,091	(7,927)	98,050	126,356
Other state revenues	832,759	844,547	11,788	22,910	20,822
Other local revenues	42,642	49,888	7,246	68,572	66,319
TOTAL REVENUES	<u>3,105,446</u>	<u>3,110,128</u>	<u>4,682</u>	<u>189,532</u>	<u>213,497</u>
EXPENDITURES					
Certificated salaries	1,609,635	1,615,836	(6,201)	—	—
Classified salaries	445,596	431,064	14,532	82,377	81,423
Employee benefits	543,859	525,524	18,335	25,612	23,499
Books and supplies	163,887	156,104	7,783	79,028	77,905
Services and other operating expenditures	250,080	237,078	13,002	5,720	5,711
Capital outlay	199,583	160,920	38,663	25,494	15,253
Capital lease:					
Principal	—	14,650	(14,650)	—	—
Interest	—	2,953	(2,953)	—	—
Other	32,317	24,770	7,547	—	—
TOTAL EXPENDITURES	<u>3,244,957</u>	<u>3,168,899</u>	<u>76,058</u>	<u>218,231</u>	<u>203,791</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(139,511)</u>	<u>(58,771)</u>	<u>80,740</u>	<u>(28,699)</u>	<u>9,706</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	49,605	7,352	(42,253)	9,190	20,496
Operating transfers out	(9,190)	(20,496)	(11,306)	(46,605)	(7,352)
TOTAL OTHER FINANCING SOURCES (USES)	<u>40,415</u>	<u>(13,144)</u>	<u>(53,559)</u>	<u>(37,415)</u>	<u>13,144</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(99,096)</u>	<u>(71,915)</u>	<u>27,181</u>	<u>(66,114)</u>	<u>22,850</u>
FUND BALANCE, JULY 1, 1997	190,941	190,941	—	445,853	445,853
FUND BALANCE, JUNE 30, 1998	<u>\$91,845</u>	<u>\$119,026</u>	<u>\$27,181</u>	<u>\$379,739</u>	<u>\$468,703</u>

See accompanying notes.

Special Revenue Funds	Capital Projects Funds			Totals (Memorandum Only)		
	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual
\$ —	\$ —	\$ —	\$ —	\$1,117,166	\$1,199,671	\$82,505
—	—	—	—	941,861	852,931	(88,930)
—	—	—	—	2,059,027	2,052,602	(6,425)
28,306	—	—	—	269,068	289,447	20,379
(2,088)	—	—	—	855,669	865,369	9,700
(2,253)	3,250	10,386	7,136	114,464	126,593	12,129
23,965	3,250	10,386	7,136	3,298,228	3,334,011	35,783
—	—	—	—	1,609,635	1,615,836	(6,201)
954	—	—	—	527,973	512,487	15,486
2,113	—	—	—	569,471	549,023	20,448
1,123	—	—	—	242,915	234,009	8,906
9	848	620	228	256,648	243,409	13,239
10,241	7,268	7,267	1	232,345	183,440	48,905
—	—	—	—	—	14,650	(14,650)
—	—	—	—	—	2,953	(2,953)
—	—	—	—	32,317	24,770	7,547
14,440	8,116	7,887	229	3,471,304	3,380,577	90,727
38,405	(4,866)	2,499	7,365	(173,076)	(46,566)	126,510
11,306	—	—	—	58,795	27,848	(30,947)
39,253	(3,000)	—	3,000	(58,795)	(27,848)	30,947
50,559	(3,000)	—	3,000	—	—	—
88,964	(7,866)	2,499	10,365	(173,076)	(46,566)	126,510
—	175,624	175,624	—	812,418	812,418	—
\$88,964	\$167,758	\$178,123	\$10,365	\$639,342	\$765,852	\$126,510

See accompanying notes.

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Trustees of the South Bay Union School District School District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the South Bay Union School District. The District receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncement, since Board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate.. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District maintains the following funds:

GOVERNMENTAL FUND TYPES

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains three special revenue funds:

1. Special Reserve Fund is used primarily to receive any excess funds from the General Fund at year-end. Funds are transferred from the Special Reserve Fund to the General Fund to fund specific expenditures by board action.
2. Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property in accordance with a specific plan.
3. Cafeteria Fund is used to account for revenues earned and expenditures made to operate the child nutrition program.

Capital Projects Fund is used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains two capital projects funds:

1. The Capital Outlay Reserve Fund is used to accumulate funds transferred from the general fund for planned building projects and equipment purchases.
2. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

SOUTH BAY UNION SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

FIDUCIARY FUND TYPES

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains agency funds for student organizations at each of the two locations.

ACCOUNT GROUPS

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources." Thus, the long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account groups of the District.

General Long-Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the Financial Statements. Basis of Accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they became both measurable and available to finance expenditures of the current fiscal period. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered) except for unmatured interest on general long-term debt, which is recognized when due.

Trust and agency fund assets and liabilities are also accounted for on the modified accrual basis.

Budget and Budgetary Accounting

Annual budgets are adopted on a basis with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and superintendent during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Stores Inventories

Inventories are recorded in the Cafeteria Fund only, using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of food and expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

Fixed Assets

The acquisition of fixed assets is recorded as an expenditure when payment is made. Such assets are not capitalized

SOUTH BAY UNION SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS

In a separate fund or separate account. This lack of recording in a separate fund or account is contrary to generally accepted accounting principles and the omission has been noted in the auditor's report.

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities are recognized in the general fund at year-end. The noncurrent portion of the liabilities are recognized in the general long-term debt account group.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The Reserve for Revolving Fund and Reserve for Stores Inventory reflect the portions of fund balance represented by revolving cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The Reserve for Restricted Programs reflects program income unspent at year-end which is restricted to a specific use.

Designation of ending fund balance indicate tentative plans for financial resources utilization in a future period.

Property Tax

Secured property taxes are levied March 1 on all secured real property and are due and payable November 1 and February 1 of the following fiscal year. Unsecured property taxes are payable in one installment on or before August 31. The County of Humboldt bills and collects the taxes for the District. Tax revenues are recognized by the District when received.

Since the passage of California Proposition 13, beginning with the fiscal year 1978-79, taxes are based either on one percent rate applied to the 1975-76 assessed value of property, or on one percent of the sales price of the property on sales transactions and construction which occur after the 1975-76 assessment. Assessed values on properties (exclusive of increases relating to sales transactions and improvements) can rise at a maximum of two percent per year. The amount collected by the County is distributed in accordance with State law to the various public agencies. Therefore, the District does not levy a specific tax rate but receives a share of the property tax revenue based on State formula. The District's tax rate is \$1 per \$100 of assessed property value, the maximum allowable under Proposition 13.

Total Columns on Combined Statements

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B -- CASH AND INVESTMENTS

Cash on deposit with the County Treasury is part of an investment pool, which is administered by the County of Humboldt Treasurer's Office and conforms to the California Government Code.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Humboldt County Treasury. The County pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly into

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County's portfolio normally consists of U.S. Treasury Issues, U.S. Agency Issues, Negotiable Certificates of Deposit, Commercial Paper, Medium-term Notes, Certificates of Deposit, Repurchase Agreements, Bankers Acceptances, and the Local Agency Investment Fund. All cash invested by the County in demand deposit accounts is collateralized to 110% with approved U.S. Government securities such as Treasury Bills and other U.S. Treasury issues.

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

NOTE C — ACCOUNTS RECEIVABLE

Receivables at June 30, 1998, consist of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Federal Government	\$32,899	\$21,816	\$ —	\$54,715
State Government:				
Lottery	33,007	—	—	33,007
Categorical Aid Programs	15,700	—	—	15,700
Deferred maintenance	—	12,498	—	12,498
State Aid	6,765	—	—	6,765
Child Nutrition	—	1,432	—	1,432
Other local	6,569	—	—	6,569
Interest	<u>4,821</u>	<u>5,675</u>	<u>2,562</u>	<u>13,058</u>
	<u>\$89,761</u>	<u>\$41,421</u>	<u>\$2,562</u>	<u>\$143,744</u>

NOTE D — LONG-TERM DEBT

The following is a schedule of changes in the long-term debt account group during the year:

	<u>Balance June 30, 1997</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1998</u>
Compensated absences	\$5,839	\$869	\$ —	\$6,708
Capital lease	<u>55,092</u>	<u>—</u>	<u>14,615</u>	<u>40,477</u>
	<u>\$80,931</u>	<u>\$869</u>	<u>\$14,615</u>	<u>\$47,185</u>

NOTE E — INTERFUND TRANSACTIONS

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 1997-98 fiscal year were as follows:

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Cafeteria	General	\$11,306
Deferred Maintenance	General	9,190
General	Special Reserve	<u>7,352</u>
		<u>\$27,848</u>

NOTE F -- EXCESS OF EXPENDITURES OVER APPROPRIATIONS.

Excesses of expenditures over appropriations in individual funds are as follows:

<u>Fund</u>	<u>Excess Expenditures</u>
General Fund:	
Certificated salaries	\$6,201
Capital lease	\$17,603

General Fund: The District incurred unanticipated costs relating to employee salaries. The District did not budget separately for capital lease expenditures.

NOTE G -- JOINT VENTURES

The South Bay Union School District participates in two joint ventures under joint powers agreements (JPAs); the North Coast Schools' Insurance Group and the North Coast Schools' Medical Insurance Group. The relationship between the South Bay Union School District and JPAs is such that neither JPA is a component unit of the South Bay School District for financial reporting purposes.

North Coast Schools' Insurance Group (NCSIG) — The NCSIG arranges for and provides workers compensation and property and liability insurance for its members; all of the Humboldt and Del Norte County School Districts and their County Offices of Education. The NCSIG is governed by a commission composed of one representative from each member agency. A nine member executive committee elected by and from the commission controls the operations of the NCSIG, including selection of management and approval of operating budgets. The NCSIG is independent of any influence by the member districts beyond their representation on the commission. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the NCSIG.

North Coast Schools' Medical Insurance Group (NCSMIG) — The NCSMIG arranges for and provides medical, vision, and dental insurance for its members; Humboldt County Office of Education and all Humboldt County School Districts. The NCSMIG is governed by a board of directors composed of representatives from member districts which have one hundred or more insured lives and one representative for those member districts with less than one hundred insured lives. The Board controls the operations of the NCSMIG including selection of management and approval of operating budgets. NCSMIG is independent of influence by the member districts beyond their representation on the Board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the NCSMIG.

Condensed financial information of the NCSIG and the NCSMIG for the year ended June 30, 1998, is as follows:

	<u>NCSIG</u>	<u>NCSMIG</u>
Total assets	\$7,887,292	\$6,697,101
Total liabilities	<u>4,055,128</u>	<u>2,217,863</u>
Fund balance	<u>\$3,832,168</u>	<u>\$4,479,238</u>
Total revenues	\$3,813,819	\$12,264,448
Total expenditures	<u>3,301,288</u>	<u>12,383,860</u>
Net increase (decrease) in fund balance	<u>\$512,530</u>	<u>(\$109,512)</u>

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Neither entity had long-term debt outstanding at June 30, 1998. The South Bay Union School District's payments to the NCSIG and NCSMIG during the year were \$71,745 and \$293,469, respectively. The District's share of year-end assets, liabilities, or fund equity has not been calculated by either the NCSIG or NCSMIG. Financial statements for the year ended June 30, 1998, are available through the North Coast Schools Insurance Group.

NOTE H -- EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System, and classified employees are members of the Public Employees' Retirement System.

State Teachers' Retirement System (STRS)

Plan Description

The South Bay Union School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for the fiscal year 1997-98 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The South Bay Union School District's contributions to STRS for the fiscal year ending June 30, 1998, 1997, and 1996 were \$130,339, \$119,537, and \$106,128, respectively, and equal 100% of the required contributions for each year.

California Public Employees' Retirement System (CalPERS)

Plan Description

The South Bay Union School District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in social security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 1997-98 was 6.172% of annual payroll (decreasing to 6.033% of pay under a special funding provision effective with the January 1998 payroll period due to the State's direct reimbursement to CalPERS of the cost of certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by state statute. The South Bay Union School District's contributions to CalPERS for the fiscal year ending June 30, 1998, 1997, and 1996 were \$17,579, \$21,102, and \$17,394, respectively, and equal 100% of the required contributions for each year.

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE I — POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note G, the District provides postretirement health care benefits to certificated employees, in accordance with contract obligations, to all employees who retire from the District on or after attaining age 55 and up to age 65, with at least 15 years of service. At June 30, 1998, five retirees met these eligibility requirements.

The District pays the premium on the same health insurance provided to current employees for pre-Medicare retirees and their dependents. Expenditures for postretirement health care benefits are recognized as monthly premiums become due. During the fiscal year ended June 30, 1998, expenditures of \$27,690 were recognized for postretirement health care.

Retirees who do not meet these eligibility requirements may continue coverage by reimbursing the District for the full amount of the premium paid monthly.

NOTE J — COMMITMENTS AND CONTINGENCIES

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE K — RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District retains the risk of loss up to \$1,000 for property related losses and no risk of loss relating to liability and workmen's compensation claims. Losses in excess of these deductible amounts up to \$20,000,000 for property and liability and up to \$250,000 per occurrence for workmen's compensation are covered through pooled self-insurance programs administered through the North Coast Schools' Insurance Group JPA. See Note G for information regarding North Coast School's Insurance Group, premium paid, and participants.

There have been no significant reductions in insurance coverage from coverage in the prior year. The amount of settlements have not exceeded insurance coverage in each of the past four fiscal years.

NOTE L — LEASES

Capital Leases

The District leases a portable building valued at \$61,300 under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Year Ending June 30</u>	<u>Lease Payment</u>
1999	\$14,083
2000	14,083
2001	14,083
2002	<u>2,576</u>
Total	44,825
Less amount representing interest	<u>(4,348)</u>
Present value of net minimum lease payments	<u>\$40,477</u>

The District will receive no sublease rental revenues nor pay contingent rentals for this equipment.

**SOUTH BAY UNION SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE M — SUBSEQUENT EVENT

In a District wide election held November 3, 1998, a \$1.5 million bond measure passed. The bonds are to be issued in the summer of 1999. The proceeds from these bonds are to be used for modernizing the District for computer technology, repairs and maintenance of the current facilities, and the construction of new facilities.

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APPENDIX B - FORM OF OPINION OF BOND COUNSEL

JONES HALL

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APPENDIX B

FORM OF OPINION OF BOND COUNSEL

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[Closing Date]

Board of Trustees
South Bay Union School District
6077 Loma Avenue
Eureka, CA 95503

RE: \$1,500,000 South Bay Union School District (Humboldt County, California)
General Obligation Bonds, 1998 Election

Members of the Board of Trustees:

We have acted as bond counsel to the South Bay Union School District (the "District") in connection with the issuance by the District of its South Bay Union School District (Humboldt County, California) General Obligation Bonds, 1998 Election, in the aggregate principal amount of \$1,500,000 (the "Bonds"), pursuant to Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Bond Law") and a resolution of the Board of Trustees of the District (the "Board") adopted on March 9, 1999 (the "Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is duly established and validly existing as a school district with the power to issue the Bonds and to perform its obligations under the Resolution and the Bonds.
2. The Resolution has been duly adopted by the Board and constitutes a valid and binding obligation of the District enforceable against the District in accordance with its terms.
3. The Bonds have been duly authorized, executed and delivered by the Board and are valid and binding general obligations of the District, and the Board is obligated under the Resolution and is authorized under the laws of the State of California to cause to be levied a tax upon the taxable property in the District for the payment when due of the principal of and interest on the Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Code which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Resolution and in other instruments relating to the Bonds to comply with each of such requirements; and the District has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

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APPENDIX C - HUMBOLDT COUNTY

APPENDIX C

HUMBOLDT COUNTY

General Information

Humboldt County is located in northwest California. It is bordered on the north by Del Norte County, on the east by Trinity County, on the south by Mendocino County, and on the west by the Pacific Ocean. The County's major industries include agriculture, fishing, retail sales and tourism.

Population

The following exhibit shows historic population figures for Humboldt County.

EXHIBIT 1C POPULATION (CITIES AND UNINCORPORATED AREAS) HUMBOLDT COUNTY

<u>Area</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Total County	124,082	124,200	124,802	125,604	127,708
Unincorporated Areas	65,947	65,437	65,756	66,311	67,377
Incorporated Areas:					
Arcata	15,539	15,812	16,215	16,263	16,454
Blue Lake	1,255	1,246	1,235	1,235	1,259
Eureka	27,436	27,564	27,355	27,396	27,726
Ferndale	1,329	1,238	1,231	1,231	1,408
Fortuna	9,265	9,693	9,775	9,910	10,171
Rio Dell	2,952	2,847	2,875	2,899	2,950
Trinidad	359	363	360	359	363

(1) Totals may not add due to independent rounding.

Source: State of California, Department of Finance

Industry

Total wage and salary employment in Humboldt County grew by 3,700 positions to 49,000 from 1993 to 1997. Exhibit 2C shows recent employment trends in the County.

EXHIBIT 2C EMPLOYMENT BY INDUSTRY GROUP HUMBOLDT COUNTY (1)

<u>Area</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Total, All Industries	45,300	46,100	47,200	48,300	49,000
Agriculture	800	900	900	900	1,000
Construction	1,700	1,700	1,700	1,700	1,600
Manufacturing	6,000	6,500	6,900	7,000	6,700
Transportation & Public Utilities	2,100	2,000	1,900	2,000	2,000
Wholesale Trade	1,300	1,300	1,300	1,300	1,200
Retail Trade	9,800	10,100	10,400	10,700	10,700
Finance, Insurance & Real Estate	1,800	1,900	1,800	1,800	1,900
Services	10,900	11,200	11,500	11,800	12,300
Government	10,900	10,700	10,900	11,100	11,600

(1) Totals may not add due to independent rounding.

Source: State of California, Employment Development Department

Employment

Historic employment and unemployment figures for Humboldt County are shown in the following table:

EXHIBIT 3C EMPLOYMENT AND UNEMPLOYMENT HUMBOLDT COUNTY

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Civilian Labor Force	59,500	60,300	60,200	60,500	60,700
Civilian Employment	53,600	55,100	55,200	55,900	56,300
Civilian Unemployment	5,900	5,200	5,000	4,600	4,400
Civilian Unemployment Rate	9.8%	8.6%	8.4%	7.5%	7.3%
Statewide Unemployment Rate	9.4%	8.6%	7.8%	7.2%	6.4%

Source: State of California, Employment Development Department

Commercial Activity

Humboldt County's growth in taxable retail sales from 1993 through the first quarter of 1998 are shown in the following table.

EXHIBIT 4C TAXABLE SALES (000) HUMBOLDT COUNTY

<u>Category</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Apparel Stores	\$ 23,945	\$ 24,620	\$ 23,176	\$ 21,769	\$ 22,107	\$ 4,449
General Merchandise	121,776	128,081	150,458	148,638	152,099	31,994
All Food Stores	76,436	75,935	75,653	77,985	79,777	17,481
Packaged Liquor Stores	5,313	4,970	4,274	4,434	4,346	896
Eating and Drinking Group	83,628	83,370	82,119	86,017	87,016	19,780
Home Furnishing and Appliances	19,414	20,599	18,066	19,044	17,825	3,932
Building Material Group	68,015	66,031	66,521	70,233	70,788	14,709
Farm Implements and Supplies	20,311	23,132	23,193	23,085	24,762	4,096
Auto Dealers and Supplies	123,415	128,391	137,703	150,455	147,462	35,007
Service Stations	64,307	64,015	64,060	71,778	83,057	18,423
Other Retail Outlets	<u>70,664</u>	<u>74,055</u>	<u>75,037</u>	<u>84,356</u>	<u>92,303</u>	<u>22,893</u>
Retail Stores Total	\$ 677,224	693,199	720,260	757,794	781,542	173,659
Business and Personal Services	\$ 41,279	\$ 42,462	\$ 45,233	\$ 42,932	\$ 43,915	\$ 10,106
All Other Outlets	<u>227,417</u>	<u>260,468</u>	<u>263,942</u>	<u>278,358</u>	<u>470,604</u>	<u>56,567</u>
Total All Outlets	\$ 945,920	\$ 996,129	\$ 1,029,435	\$ 1,079,084	\$ 1,096,061	\$ 240,332

(1) First quarter of 1998 only

Source: State of California, Board of Equalization

Agriculture

Exhibit 5C lists the value of various County agricultural products from 1994 through 1997.

EXHIBIT 5C GROSS VALUE OF AGRICULTURAL PRODUCTION HUMBOLDT COUNTY

<u>Agricultural Product</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Field Crops	\$ 7,379,000	\$ 7,054,000	\$ 7,039,600	\$ 8,223,780
Vegetable Crops	872,000	836,000	836,000	897,050
Fruit/Nut Crops	32,000	27,000	27,000	28,000
Nursery Stock	20,274,000	18,319,000	18,319,000	22,576,611
Livestock/Poultry	12,278,000	11,226,000	10,830,537	12,443,189
Livestock/Poultry Products	30,681,000	30,589,000	34,709,000	36,067,000
Misc. Products/Timber	<u>281,780,000</u>	<u>235,529,000</u>	<u>235,529,000</u>	<u>238,011,000</u>
Total	\$ 353,296,000	\$ 303,580,000	\$ 307,290,137	\$ 318,247,330

Source: Humboldt County Department of Agriculture

APPENDIX D - CONTINUING DISCLOSURE CERTIFICATE

APPENDIX D
FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the South Bay Union School District (the "District"), Humboldt County, California, in connection with the issuance of \$1,500,000 South Bay Union School District General Obligation Bonds, 1998 Election (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of Trustees of the District, adopted on March 9, 1999 (the "Bond Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Repository, if any.

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

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Certificate, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent (if other than the District) to, not later than nine months after the end of each fiscal year (which fiscal year currently ends on June 30), commencing with the 1998-1999 fiscal year, provide to any person who requests it or to any State Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. A copy of the Annual Report may be

obtained from the Superintendent of the District, at South Bay Union School District, 6077 Loma Avenue, Eureka, California 95503.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for making available or providing the Annual Report, the District shall provide the Annual Report to the Dissemination Agent, if other than the District.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for making available or providing the Annual Report the name and address of each Repository as applicable; and

(ii) if applicable, file a report with the District certifying that the Annual Report has been provided to each State Repository pursuant to this Disclosure Certificate, stating the date it was provided and listing any State Repositories to which it was provided.

SECTION 4. Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the following:

(a) Annual Financial Information

The audited financial statements of the District for the most recent ended fiscal year.

A summary of the approved budget for the District for the then-current fiscal year.

(b) Operating Data

The following customarily prepared information for the most recently ended fiscal year, to the extent not provided in subsection (a) above, will be updated annually: information concerning average daily attendance, short and long term borrowings and lease obligations.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rule making Board. The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section shall govern the giving of notices of the occurrence of any of the following events:

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

5. Substitution of credit or liquidity providers, or their failure to perform;
 6. Adverse tax opinions or events affecting the tax-exempt status of the security;
 7. Modifications to rights of security holders;
 8. Bond calls;
 9. Defeasances;
 10. Release, substitution, or sale of property securing repayment of the securities;
- and
11. Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, as soon as possible, determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material, the District shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the District and Resolutions.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: May 18, 1999

SOUTH BAY UNION SCHOOL DISTRICT

SAMPLE ONLY

Superintendent

ATTACHMENT "A"

NOTICE OF REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of District: South Bay Union School District

Name of Bond Issue: South Bay Union School District General Obligation Bonds, 1998 Election

Date of Issuance: May 18, 1999

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 26 of the District Resolution dated March 9, 1999. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

SOUTH BAY UNION SCHOOL DISTRICT

SAMPLE ONLY
Superintendent

APPENDIX E - HUMBOLDT COUNTY INVESTMENT POLICY

COUNTY OF HUMBOLDT

STATEMENT OF INVESTMENT POLICY

Under the authority delegated to the county Treasurer by the Board of Supervisors to invest and reinvest all of the funds in the County Treasury and, in accordance with the California Government Code, the following sets forth the investment policy of the County of Humboldt:

1. POLICY STATEMENT

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Humboldt County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code Section 53601, et. seq., Section 53635, et. seq., and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives.

2. STANDARDS OF CARE

The County Treasurer is the Trustee of the Pooled Investment Fund and, therefore, a fiduciary subject to the prudent investor standard. The County Treasurer, employees involved in the investment process and the members of the Treasury Oversight Committee shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with the care, skill, prudence and diligence to meet the aims of the investment objectives listed in the Policy.

3. INVESTMENT OBJECTIVES

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance:

- (a) **SAFETY OF CAPITAL** - The preservation of capital is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.
- (b) **LIQUIDITY** - As a second objective, the Pooled Investment Fund should remain sufficiently flexible to ensure the County Treasurer meets all operating requirements which may be reasonably anticipated in any depositor's fund.

- (c) **MAXIMUM RATE OF RETURN** - As the third objective, the Pooled Investment Fund should be designed to attain a rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein.

4. IMPLEMENTATION

In order to provide direction to those responsible for management of the Pooled Investment Fund, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has provided the report to the legislative body of local agencies that participate in the Pooled Investment Fund.

The Policy defines investible funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of broker-dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Treasury Oversight Committee; the manner of appropriating costs; the criteria to request withdrawal of funds; and the terms and conditions under which local agencies that are not required to deposit funds may deposit funds if they so desire.

5. PARTICIPANTS

- (a) **STATUTORY PARTICIPANTS** - General Participants are those government agencies within the County of Humboldt for which the Humboldt County Treasurer is statutorily designated as the Custodian of Funds.
- (b) **VOLUNTARY PARTICIPANTS** - Other local agencies, such as Special Districts for which the Treasurer is not the statutorily designated Custodian of Funds, may participate in the Pooled Investment Fund. Such participation is subject to the consent of the County Treasurer and must be in accordance with California Government Code Section 53684, et. seq. The legislative body must approve the Humboldt County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding.

6. AUTHORIZED PERSONS

The Humboldt County Board of Supervisors, by resolution, has delegated investment responsibility for the Humboldt County Investment Program to the Treasurer-Tax Collector. The Humboldt County Treasurer may also authorize deputies to initiate investment transactions. All investment decisions shall be made with care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting as a trustee, in a like capacity and familiarity would use in the conduct of funds of a like character, and with like aims, to safeguard the principal and maintain the liquidity needs of depositors.

7. AUTHORIZED INVESTMENTS

Authorized investments shall match the general categories established by the California Government Code Sections 53601, et. seq. and 53635, et. seq. Authorized investments shall also include, in accordance with California Government Code Section 16429.1, investments into the State Local Agency Investment Fund (LAIF). As the California Government Code is amended, this Policy shall likewise become amended.

8. PROHIBITED INVESTMENTS

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

9. INVESTMENT CRITERIA

<u>Name</u>	<u>Maximum Maturity</u>	<u>Maximum % of Pool</u>	<u>Rating</u>
U.S. Treasury and Agency Securities	5 yr	100	N/A
Bonds issued by the local agencies	5 yr	100	N/A
Registered State Warrants and Municipal Notes	5 yr	100	N/A
Bankers Acceptances (See Section 10)	270 days	40	N/A
Commercial Paper (See Section 11)	180 days	15	A or P
Negotiable Certificates of Deposit	5 yr	30	N/A
Repurchase Agreements (See Section 12)	1 yr	100	N/A
Reverse Repurchase Agreements (See Section 12)	92 days	20	N/A
Medium Term Corporate Notes	5 yr	30	A
Shares of a Mutual Fund average life		20	Aaa or AAAm
Collateralized Mortgage Obligations	5 yr	20	AA

10. BANKERS ACCEPTANCE

No more than 30 percent of the agency's surplus funds may be invested in the bankers acceptances of any one commercial bank pursuant to this section.

11. COMMERCIAL PAPER

All commercial paper issuers must maintain an “A” rating by Standard & Poor’s Corporation or a “P” rating by Moody’s Investor Service, issued by corporations operating within the United States, and having total assets in excess of five hundred million dollars, (\$500,000,000).

Purchase of eligible commercial paper may not exceed 180 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation. Purchases of commercial paper may not exceed 15 percent of agency’s surplus money. An additional 15 percent, or a total of 30 percent, of an agency’s surplus money may be invested if the dollar-weighted average maturity of the entire amount does not exceed 31 days.

12. REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Under California Government Code Section 53601, Paragraph (1) and Section 53635 the County Treasurer may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of Repurchase Agreements shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be “matched to maturity.”

13. COLLATERAL

Repurchase agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the approved list of the County and which meet the qualifications of the Policy, with a market value of 102%. Use of mortgage-backed securities for collateral is not permitted. For purposes of investing the daily excess bank balance, the collateral provided by the County’s depository bank can include mortgage-backed securities valued at 100%.

14. CRITERIA FOR THE SELECTION OF BROKER/DEALERS AND FINANCIAL INSTITUTIONS

All transactions initiated on behalf of the Pooled Investment Fund and Humboldt County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York, financial institutions that directly issue their own securities which have been placed on the Approved List of Broker/Dealers and Financial Institutions or broker/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed. All Dealers and financial institutions must have a strong industry reputation and open lines of credit with other dealers. Further, these firms must have an investment grade rating from at least one national rating service, if applicable.

Broker/Dealers and financial institutions which have exceeded the political contribution limits within a four year period to the County Treasurer or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer or financial institution will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of Broker/Dealers and Financial Institutions.

Each broker/dealer and financial institution authorized to do business with Humboldt County shall, at least annually, supply the County Treasurer with audited financial statements.

15. **WITHDRAWAL REQUESTS**

- (a) **STATUTORY PARTICIPANTS** - The County Treasurer will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Humboldt County Auditor-Controller at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with California Government Code Section 27136, et. seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse effect on the interest of the other depositors in the Pooled Investment Fund. Any withdrawal for such purposes shall be at the market value of the Pooled Investment Fund as of the date of the withdrawal.

- (b) **VOLUNTARY PARTICIPANTS** - For outside investors who utilize Government Code Section 53684, where the County Treasurer does not serve as the agency's treasurer, any withdrawal request, with the exception of normal cash flow withdrawals, must be made in writing 30 days in advance, unless in the County Treasurer's judgement there are sufficient funds available. These withdrawals will also be at the market value of the Fund.

16. **DELIVERY & SAFEKEEPING**

Delivery of all securities shall be either to the County Treasurer or to a third party custodian. No securities shall be held in the safekeeping of a broker/dealer unless it is collateral for a reverse repurchase agreement.

17. APPORTIONMENT OF INTEREST & COSTS

Interest shall be apportioned to all pool participants quarterly, based upon the ratio of the average daily balance of each individual fund to the average daily balance of all funds in the Investment Pool. The amount of interest apportioned shall be determined using the accrual method of accounting, whereby interest will be apportioned for the quarter in which it was actually earned. The Treasurer may deduct from the gross interest earnings those budgeted administrative costs relating to the management of the Treasury as provided by Section 27013 of the Government Code.

18. REVIEW, MONITORING AND REPORTING OF THE PORTFOLIO

Quarterly, the County Treasurer will provide to the Treasury Oversight Committee, the Board of Supervisors and to any local agency participant a report on the Pooled Investment Fund. The report will list the type of investments, name of issuer, maturity date, par amount and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Investment Policy and a statement of the Pooled fund's ability to meet the expected expenditure requirements for the next six months.

Annually, the County Treasurer shall provide to the Treasury Oversight Committee a Statement of Investment Policy. Additionally, the County Treasurer will render a copy of the Statement of the Investment Policy to the legislative body of the local agencies that participate in the Pool.

19. LIMITS ON HONORARIA, GIFTS AND GRATUITIES

In accordance with California Government Code Section 27133 (d), et. seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolios, and members of the Treasury Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar twelve month time period from a Broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria and gratuities in a calendar twelve (12) month time period in excess of \$280. Any violation must be reported to the State Fair Political Practices Commission.

20. AUDITS

The County Auditor shall audit the County Treasurer's investment function for compliance with policy and state law. The results of this audit shall be reported on, at least annually, to the Treasurer and the Treasury Oversight Committee. In addition, the County Auditor shall perform a quarterly review of current investments and report any material non-compliance with the Investment Policy or state law.

21. **NON-NUCLEAR POLICY**

The County Treasurer shall act in accordance with the County's Non-nuclear ordinance, a copy of which is attached.

RESOLUTION NO. 89-16

RESOLUTION ESTABLISHING THE
NUCLEAR FREE HUMBOLDT COMMISSION

WHEREAS, the voters of Humboldt County passed an initiative measure known as the "Nuclear Free Humboldt County Ordinance" (hereinafter referred to as the 'Ordinance'); and

WHEREAS, Section 7 of said Ordinance requires the County's Board of Supervisors to establish a Nuclear Free Humboldt Commission, and sets forth the number of members to be appointed and the various duties to be carried out by said Commission;

NOW, THEREFORE, the Board of Supervisors of the County of Humboldt resolves as follows:

1. The Nuclear Free Humboldt Commission is hereby established pursuant to Section 7 of the Nuclear Free Humboldt County Ordinance.

2. The Commission shall be composed of 7 members appointed as follows:

a. Each Board member shall appoint one member to the Commission;

b. Two members of the Commission shall be appointed by a majority vote of the full Board.

3. Members of the Commission shall be selected by the Board on the basis of their interest in carrying out the provisions of the Ordinance and their ability to commit the necessary time

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which will be required to carry out the extensive duties of the Commission. A person shall accept appointment to the Commission only if such person will have the ability to allocate adequate time to carry out the functions of a member of the Commission. All members of the Commission shall serve as volunteers.

4. The overall purpose of the Commission shall be to oversee the implementation of the Ordinance, and the divestiture by the County of Humboldt of any existing prohibited investments or contracts held by the County.

5. The Commission shall carry out its functions in accordance with procedures established by the Board of Supervisors, or, in the absence of such procedures, shall establish its own procedures consistent with State and local law, including the Ordinance. The Commission shall obtain input and advice from appropriate County staff in carrying out its duties.

6. In carrying out its duties, the Commission shall hold public hearings, take testimony, conduct investigations, and submit reports to the Board as authorized or required by the Ordinance. In carrying out its duties, the Commission is a legislative body within the meaning of the Ralph M. Brown Act (Government Code Section 54950, et seq.) and all meetings of the Commission shall be open and public in accordance with the Brown Act.

7. The Commission shall conduct studies and report to the Board of Supervisors with respect to all existing County

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contracts and public fund investments with nuclear weapons contractors. The Commission shall determine and report to the Board as to any cases in which a reasonable alternative contract or investment exists, which contract or investment would be consistent with prudent investment policy and consistent with the intent and purpose of the Ordinance.

8. Section 7 of the Ordinance requires that the County of Humboldt divest itself within two years of the adoption of the Ordinance of all existing prohibited investments or contracts held by the County. The Commission shall make quarterly reports to the Board, at the first Board meeting of each calendar quarter, concerning the progress of said divestiture, and listing the book value of all remaining investments in nuclear weapons contractors. The report shall specify the date on which the book value of remaining investments in nuclear weapons contractors was determined.

9. The Commission shall identify all businesses presently existing and operating in the County of Humboldt, and businesses who have applied to the County of Humboldt to operate therein, which are nuclear weapons contractors. The Commission shall be responsible for conducting a timely phase out of nuclear weapons contractors from the County of Humboldt, and for insuring the smooth conversion of Humboldt County businesses to conformance with the requirements of the Ordinance. In carrying out the

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duties specified in this Section, the Commission shall follow procedures to be adopted by the Board of Supervisors and shall solicit testimony from the public.

10. The Commission shall advise the Board of Supervisors regarding:

- a. The implementation of the Ordinance;
- b. The erection of nuclear free signs;
- c. Planning for the annual Nuclear Free Zone Commemoration Day and Implementation Reports;
- d. Any steps the County might take to prevent economic dependence on nuclear weapons spending.

11. The Commission shall advise the Board of Supervisors as to any nuclear weapons work or other activity prohibited by the Ordinance which the Commission finds to exist within the County of Humboldt. In carrying out the duties required by this Section, the Commission shall only use publicly available information.

12. Terms of Office for members of the Commission shall be 4 years. Members shall served staggered terms, with the initial terms terminating as follows:

- a. February 1, 1991, for members selected by the supervisors from Districts 4 & 5 and one member selected by a majority of the full Board.
- b. February 1, 1993, for members selected by supervisors from Districts 1, 2 & 3 and one member selected by a majority of

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the full Board.

13. If a member of the Commission is absent from 3 consecutive regular meetings, or 5 regular meetings within a calendar year, such person shall be deemed to have resigned his or her membership on the Commission, unless such absence is excused by the Commission due to illness, absence from the County, or extreme weather conditions. The secretary to the Commission shall give written notice to a commissioner who has, without an excuse, missed 2 consecutive meetings, or 4 regular meetings in a calendar year, which notice shall contain a statement advising the commissioner of the absences and the consequences thereof, together with a copy of this resolution.

14. A member of the Commission may be removed at any time at the pleasure of the supervisor who appointed that member of the Commission, or that supervisor's successor in office.

27/b:nuclfree.res

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Adopted on motion by Supervisor Pritchard ,seconded by Supervisor Neely and the following vote:

AYES: Supervisors-- Dixon, Pritchard, Chesbro, Neely, Sparks
NOES: Supervisors-- None
ABSENT: Supervisors-- None
ABSTAIN: Supervisors-- None

STATE OF CALIFORNIA)
County of Humboldt)

I, STANLEY D. GREENE, Interim Clerk of the Board of Supervisors, County of Humboldt, State of California, do hereby certify the foregoing to be a full, true, and correct copy of the original made in the above entitled matter by said Board of Supervisors at a meeting held in Eureka, California as the same now appears of record in my office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Seal of said Board of Supervisors

STANLEY D. GREENE

Interim Clerk of the Board of Supervisors of the County of Humboldt, State of California

By David L. Smith

27/b:nuclfree.res/tw

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO THE VOTERS

The County Counsel has prepared the following title and summary of the chief purpose and points of the proposed measure:

AN ORDINANCE ESTABLISHING A NUCLEAR FREE ZONE IN HUMBOLDT COUNTY; PROHIBITING THE PRODUCTION, TRANSPORTATION, AND STORAGE OF NUCLEAR WEAPON COMPONENTS AND NUCLEAR WASTE; ESTABLISHING AN ANNUAL "NUCLEAR FREE ZONE COMMEMORATION DAY"; PROHIBITING THE USE OF COUNTY FUNDS IN CONTRACTS WITH OR INVESTMENTS IN NUCLEAR WEAPONS CONTRACTORS; ESTABLISHING A HUMBOLDT COUNTY NUCLEAR FREE COMMITTEE; REQUIRING THE BOARD OF SUPERVISORS TO NOTIFY CONGRESSIONAL LEADERS AND THE PRESIDENT OF THE COUNTY POLICY AND ORDINANCES ON NUCLEAR WEAPONS.

The proposed ordinance would prohibit anyone from designing, producing, deploying, launching, maintaining, or storing nuclear weapons or the components of nuclear weapons within Humboldt County. A component of a nuclear weapon is any device, radioactive or non-radioactive, specifically designed or modified for exclusive use as part of a nuclear weapon, or to exclusively contribute to the operation of nuclear weapons. Also proposed to be prohibited is the establishment, construction or operation of any hazardous radioactive material disposal site within the County, and would prohibit the storage or dumping of hazardous radioactive material except as specifically exempted. Transportation of nuclear materials, weapons, fissionable components and weapons-related nuclear material and wastes would be prohibited. Where the County of Humboldt does not have jurisdiction to prohibit such transportation, such as over State or Federal highways, the County shall cause to be published a regular monthly notice of the transport of such material over such highways in Humboldt County.

The ordinance does not prohibit pure research or research in and application of nuclear medicine, the use of small amounts of radioactive material in consumer and industrial devices such as smoke detectors or watches, the use of small amounts of radioactive material for educational purposes by recognized educational institutions, industrial applications of x-ray technology and tracer studies, activities of the State and Federal agencies pre-empted by existing law, or short term storage of radioactive material for the purposes listed above.

Violations of the Act are punishable by imprisonment up to 30 days and a \$1,000 per day fine. Each day of violation shall be deemed a separate violation.

The County would be required to post "Nuclear Free Zone" signs at all entrances to the County, to the County Courthouse and any County annex (Clark Complex, etc.). A "Nuclear Free Zone Commemoration Day" would be observed annually.

The Board of Supervisors would be required to notify the County's Congressional representatives, the Speaker of the House of Representatives, the Senate Majority Leader and the President of the United States, that it is the judgment of the people of Humboldt County that resources currently allocated to nuclear weapons should be redirected into local services. The Board would also annually notify appropriate Federal and other authorities of the enactment of the proposed ordinance and whether or not it is in effect.

The County of Humboldt, and any agent of the County, would be prohibited from contracting with or investing in any nuclear weapons contractor. The County would be prohibited from investing public funds in any corporation or business entity unless such entity has filed with the County its affidavit that neither it, nor its parent company, nor any affiliates or subsidiaries are nuclear weapons contractors.

The County would be directed to require each city in the County to require applicants for business licenses in said city shall state whether or not said applicant is a nuclear weapons contractor.

A Humboldt County Nuclear Free Commission would be established to advise the County Supervisors on the requirements of and compliance with the ordinance, and to submit recommendations on carrying out the purposes of the ordinance.

WHEREAS, the citizens of Humboldt County seek an end to nuclear proliferation and a reorientation of public and private resources toward peaceful development, as shown by the passage of Humboldt County's 1982 Jobs with Peace initiative by 67% of the voters, and
WHEREAS, the people of the County of Humboldt understand the nuclear arms race threatens the economic well-being, health, and safety of the citizens of this county; and
WHEREAS, the enormous nuclear weapons budget has seriously weakened the American economy by diverting capital and human skills from commercial production, making U.S. industry less competitive in the world market, resulting in the loss of manufacturing jobs to overseas producers and a declining standard of living for American wage-earners; and
WHEREAS, the prohibition of nuclear weapons production will have little or no negative impact on employment in the County, while communities that become dependent on nuclear weapons contracts face economic instability and job loss when nuclear weapons budgets are cut; and
WHEREAS, the allocation of resources to nuclear weapons production diverts scarce public tax dollars from roads, sewage treatment, clean water, schools, health care, housing, and other local needs; and
WHEREAS, the presence of nuclear waste dumps or storage sites within Humboldt County would depress investment in the County's tourism, fishing, and dairy industries, make the County less attractive to prospective new businesses, employees, and home-buyers, and exert a downward pressure on real property values; and
WHEREAS, the refusal of the county of Humboldt to support or to do business with nuclear weapons contractors may encourage those corporations to abandon their work on nuclear weapons in favor of work that contributes to the public welfare; and
WHEREAS, the County's investment of "idle" public funds and public pension funds in, and the granting of public contracts to, corporations engaged in the research and production of nuclear weapons systems can be construed as condoning, encouraging, and supporting the nuclear arms race; and
WHEREAS, the investment and expenditure of public funds should be based upon the premise that the people's money be used for the public welfare, within the constraints of local, state, national and international laws;

THEREFORE THE PEOPLE OF THE COUNTY OF HUMBOLDT ORDAIN HUMBOLDT COUNTY A NUCLEAR-FREE ZONE, AND ORDAIN as follows:

Ordinance No.

Section 1: Name. This division shall be known and may be cited as the Nuclear-Free Humboldt County Ordinance.

Section 2: Purpose. The presence of nuclear weapons, or the development, production and/or storage of nuclear weapons-related components and nuclear material, and the storage or dumping of hazardous radioactive material with the County of Humboldt is in direct conflict with the maintenance of the community's public health, safety, economic well-being, general welfare, and adherence to international law. The purpose of this Ordinance is to establish the County of Humboldt as a Nuclear-Free Zone in which work on nuclear weapons, and/or the storage or transportation of weapons-related components and nuclear material, and the storage or dumping of hazardous radioactive material within the County are prohibited. This Ordinance's further purpose is to prohibit or restrict the County of Humboldt from contracting for services or products with, or investing County funds in, any business which is a nuclear weapons contractor.

Section 3: Definitions. For purposes of this ordinance, the following definitions shall apply:

A. "Person" is any private individual, corporation, institution or other entity.

B. "Nuclear weapon" is any device, the intended explosion of which results from the energy released by fission or fusion reactions involving atomic nuclei, including the means of guiding, transporting, propelling or triggering the device, provided that such means is destroyed or rendered useless in the normal guiding, transporting, propelling, or triggering of the device.

C. "Component of a nuclear weapon" is any device, radioactive or non-radioactive, specifically designed or modified for exclusive use as part of a nuclear weapon and/or any device radioactive or non-radioactive specifically designed or modified to exclusively contribute to the operation of nuclear weapons.

D. "Direct activities of the federal government" shall mean actions of the federal government or of its agencies, but shall exclude actions of independent contractors.

E. "Hazardous radioactive material" is any radioactive material which is the by-product of any nuclear reaction or nuclear weapons production, any radioactive material or spent radioactive component which gives off radiant energy in the form of particles or rays by spontaneous disintegration of atomic nuclei, and any other material which the Nuclear Regulatory Commission determines to be

special nuclear material, except as specifically exempted in Section 6.

F. "Nuclear waste" is any material which is the by-product of any nuclear reaction or nuclear weapon production, except for the by-product of applied nuclear medicine.

G. "Nuclear weapons contractor" is any person, corporation, or other business entity, which knowingly or intentionally is engaged in the research, development, production, or testing of nuclear warheads, nuclear weapons systems, or nuclear weapons components.

H. "Transport and Transportation" is transportation by any means over passable roadways, navigable waterways, or in the air-space, that are within the jurisdiction of the County of Humboldt, except where referred to as meaning roadways, waterways, or air-space regulated by preemptive Federal or State Law.

I. "County Funds", "Public Funds" are those monies, grants, and funds received and managed by the County of Humboldt.

Section 4: Prohibitions.

(a) Prohibition of Nuclear Weapons Work. No person shall, within Humboldt County, knowingly design, produce, deploy, launch, maintain, or store nuclear weapons or the components of nuclear weapons.

(b) Prohibition of Commencement of Nuclear Weapons Work. No person shall commence, after the effective date of this ordinance, in the design, production, deployment, launching, maintenance or storage of nuclear weapons or the components of nuclear weapons, nor shall the County of Humboldt issue any permits to conduct such activity.

(c) Prohibition of Storage or Dumping of Hazardous Radioactive Material. No person shall establish, construct, or operate any hazardous radioactive material disposal site within the County of Humboldt. Nor shall any person store or dump any hazardous radioactive material within the County of Humboldt except as specifically exempted in Section 6.

(d) Prohibition of Transportation of Nuclear Materials. The transportation of nuclear weapons, their fissionable components, and weapons-related nuclear material and waste through the County of Humboldt on roadways, waterways, or in air-space regulated by preemptive State or Federal law, in the interest of public health and safety, is subject to the following restrictions:

(1) As to roadways which are within the exclusive jurisdiction of the County of Humboldt, transportation of such materials is prohibited.

(2) As to roadways which are demonstrably within the jurisdiction of the State or Federal government, the County Board of Supervisors shall post as a regular monthly notice, once each month, in a newspaper of general circulation within this county the fullest description possible of any shipment of such material that has occurred that previous month, transported through or across the County of Humboldt by any means of transportation whatsoever.

(e) Prohibition of Investments and Contracts. The County of Humboldt, nor any agent thereof, shall not make any contract with, or investments in, any nuclear weapons contractor.

Section 5: Notice and Enforcement.

(a) Each violation of this Act shall be punishable by up to 30 days imprisonment and a \$1000 fine. Each day of violation shall be deemed a separate violation.

(b) The County shall post and maintain appropriate signs at all recognized entrances to the County and to the County Courthouse and County Annex, proclaiming the County of Humboldt's status as a nuclear-free zone. Signs shall be clearly visible, and lettering shall be at least equal in size to that on the nearest "Entering Humboldt County" or "County of Humboldt" borderline sign.

(c) The County shall notify the Federal Government and other appropriate authorities that this law has been enacted and is in effect, at least once a year.

(d) Before any further public funds shall be invested by the County of Humboldt in the stock, securities or other obligations of any corporation or business entity, the County Board of Supervisors shall require that said corporation or business submit to the County of Humboldt an affidavit certifying that neither it, nor its parent company, affiliates or subsidiaries are nuclear weapons contractors.

(e) The County of Humboldt is directed to require of each city incorporated within Humboldt County that, in addition to any other information deemed necessary by its business license officer, that any application for a business license within a city in the County of Humboldt shall state whether or not said business is a nuclear weapons contractor.

Section 6: Exclusions. Nothing in this ordinance shall be construed to prohibit:

A. Research in and application of nuclear medicine, and other pure research;

B. Any writing or speech devoted to public commentary or debate, or other expression protected by the First Amendment to the United States Constitution;

C. Uses of small amounts of radioactive materials for smoke detectors, light-emitting watches and clocks, gauges, and other similar consumer and industrial devices;

D. Uses of small amounts of radioactive materials for educational purposes by a recognized education institution;

E. Industrial applications of X-ray technology and tracer studies;

F. Direct activities of the Federal and State Government that are preempted by existing law;

G. Short-term storage of radioactive materials for activities excluded under this section.

Section 7: Nuclear-Free Humboldt Commission. The County Board of Supervisors shall adopt an implementation plan which shall, within 90 days of the enactment of this Ordinance, establish a Nuclear-Free Humboldt Commission of seven members, who shall be appointed by the Board of Supervisors and shall serve as volunteers. The purpose of the Commission shall be to oversee the implementation of the Ordinance, and to divest the County of Humboldt, as a government entity, within two years of the adoption of this ordinance, of all such existing prohibited investments or contracts held by it. Said Commission shall:

(1) Conduct studies and report to the Board of Supervisors of existing County contracts and public fund investments with nuclear weapons contractors, and determine in which cases any reasonable alternative contract or investment exists, in a manner consistent with prudent investment policy, and mindful of the intent and purpose of this Ordinance. The Commission shall further make regular reports to the Board concerning the progress of said divestiture, listing the book value of remaining investments in nuclear weapons contractors.

(2) Identify those businesses presently existing and operating in the County of Humboldt, and those who have made application to the County of Humboldt, who are nuclear weapons contractors. The Commission will be responsible for conducting a timely phase-out of nuclear weapons contractors from the County of Humboldt, and for insuring the smooth conversion of Humboldt County businesses to the requirements of this ordinance. For this purpose the Commission shall solicit testimony from the public.

(3) Advise the Board of Supervisors regarding: the implementation of this Ordinance, erection of Nuclear-Free Zone signs, planning for the annual Nuclear-Free Zone Commemoration Day and implementation report, and about other steps the county might take to prevent economic dependence on nuclear weapons spending. The Commission may also submit recommendations regarding this ordinance for consideration in County planning documents, or provide information regarding Nuclear-Free Zone provisions.

(4) Advise the Board of Supervisors regarding any nuclear weapons work, or other activity prohibited under this Ordinance, found to be existing within the County of Humboldt. For this purpose, the Commission shall use only publicly available information.

Section 8: Nuclear-Free Zone Commemoration Day. In recognition of the first use of nuclear weapons against the Japanese City of Hiroshima in 1945, August 6 shall be declared "Nuclear Free Zone Commemoration Day" within the County of Humboldt. The County shall sponsor either directly, or indirectly through a recognized organization within the County, appropriate observation annually on this date. This annual observation shall include a report by the Nuclear Free Humboldt Commission on the County's activities to implement this ordinance.

Section 9: Redirection of Resources Toward Local Needs. The Board of Supervisors shall notify the County's Congressional representatives, the Speaker of the House of Representatives, the Senate Majority Leader, and the President of the United States, that it is the judgement of the People of Humboldt County that the funds, personnel and other national resources presently engaged in the development, production, maintenance and storage of nuclear weapons do not reflect the priorities of the people of Humboldt County and should be redirected toward urgently needed local services such as schools, job training, social services to children, the elderly and disabled, sewage treatment, shelter for the homeless, food programs, roads, clean water, housing, health care, public transportation, and emergency services.

Section 10: Recodification or Amendment.

(a) Nothing shall prevent the Humboldt County Board of Supervisors from recodifying the substantive provisions of this ordinance from time to time to incorporate the provisions of this ordinance into the county Code in the most appropriate locations.

(b) No substantive provision of this ordinance shall be amended or repealed without a vote of the People of Humboldt County.

Section 11: Severability. If any section, sub-section, paragraph, sentence or word of this ordinance shall be held to be invalid, either on its face or as applied, the invalidity of such provision shall not affect the other sections, sub-sections, paragraphs, sentences or words of this ordinance, and the applications thereof; and to that end the sections, sub-sections, paragraphs, sentences or words of this ordinance shall be deemed to be severable.

Section 12: Effective date. This ordinance shall become effective thirty (30) days from the date of final passage."

APPENDIX F - FORM OF MUNICIPAL BOND INSURANCE POLICY



FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation

Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN

STATEMENT OF INSURANCE

MBIA Insurance Corporation (the "Insurer") has issued a policy containing the following provisions, such policy being on file at [INSERT NAME OF TRUSTEE OR PAYING AGENT, INCLUDING CITY, STATE].

The Insurer, in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [INSERT NAME OF TRUSTEE OR PAYING AGENT] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean: [INSERT LEGAL TITLE OF BONDS, CENTERED AS FOLLOWS:]

[\$ PAR AMOUNT]
[ISSUER]
[DESCRIPTION OF BONDS]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

MBIA Insurance Corporation.

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