NEW ISSUE: BOOK-ENTRY ONLY

RATING: Standard & Poor's: "SP-1+"
(See "RATING" herein)

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, the interest on the Notes is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax on certain corporations, such interest is to be taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS – Tax Matters" herein.

$5,100,000
SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
(Santa Cruz County, California)
BOND ANTICIPATION NOTES, SERIES 2000

Dated: Date of Delivery **Due: October 25, 2001**

This cover page sets forth very limited information with respect to the Bond Anticipation Notes as described herein and is intended for limited description and reference only. The information set forth in this cover page is not intended to be a summary of The information contained herein with respect to the Notes and the other information set forth herein and investors are cautioned to read this Official Statement in its entirety to obtain information essential to making an informed investment decision to purchase any Notes.

The $5,100,000 Santa Cruz City Elementary School District (Santa Cruz County, California) Bond Anticipation Notes, Series 2000 (the "Series 2000 Notes" or "Notes") are being issued by the Santa Cruz City Elementary School District (the "District") for the purposes of providing funds for the acquisition or improvement of real property, including financing the costs of renovation, construction and modernization of classrooms and related school facilities and improvements, and for payment of the costs of issuance of the Notes. To the extent applicable, proceeds of the Notes not required and used for such purposes are to be applied to pay principal of and interest on the Notes.

The Notes are being delivered in fully registered form without coupons in the denominations of $5,000 or any integral multiple thereof. *The Notes will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC").* Interest on the Notes shall be payable at maturity. Payments of principal of and interest on the Notes will be paid by the Paying Agent to DTC for subsequent disbursement to DTC Participants who will remit such payments to the Beneficial Owners of the Notes. **The Notes are not subject to redemption prior to maturity.** See **"THE NOTES - Book-Entry-Only System"** herein.

MATURITY SCHEDULE

Amount	Interest Rate	Reoffering Yield	Maturity Date
$5,100,000	4.50%	3.75%	October 25, 2001

The following firm, serving as financial advisor to the District, has structured this issue.

NORTHCROSS, HILL & ACH, LLC

The principal of and interest on the Notes will be paid from the proceeds of general obligation bonds issued by the District for such purpose or from the proceeds of another issue of short-term Notes issued for such purpose. The Notes shall not constitute an obligation of the general fund of the District and shall not be payable from any source of funds of the District other than the proceeds of the general obligation bonds or another issue of short-term Notes issued for such purpose.

DTC will act as securities depository for the Notes, and individual purchases of interests in the Notes will be available to purchasers of the Notes (the "Beneficial Owners"), in the denomination of $5,000 or any integral part thereof under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Notes. Principal of and interest on the Notes is payable by State Street Bank and Trust Company of California, N.A., as paying agent, bond registrar and authenticating agent for the Notes (the "Paying Agent") to DTC and, so long as DTC or its nominee remains the registered Series 2000 Noteowner, disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry system is no longer used with respect to the Notes, the Beneficial Owners will become registered Owners of the Notes and will be paid principal and interest by the Paying Agent, all as described herein.

The Notes will be offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Certain matters will be passed on for the District by Schuering Zimmerman & Scully, LLP, Sacramento, California, Disclosure Counsel. The Notes, in book-entry form, will be available for delivery through The Depository Trust Company in New York, New York on or about October 31, 2000.

USBancorp Piper Jaffray

Final Official Statement Dated October 18, 2000

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The Santa Cruz City Elementary School District (the "District") has undertaken the responsibility for the preparation of this Official Statement. For purposes of compliance with Rule 15c2-12(b)(1) of the Securities and Exchange Commission (the "Rule"), this Official Statement, as the same may be supplemented, amended or corrected by the District from time to time (collectively, the "Official Statement") prior to the date of issuance and delivery of the Notes, may be treated as an Official Statement with respect to the Notes described herein that is, until so completed, "deemed final" as of the date hereof (or as of the date of any such supplement or correction) by the District for purposes of the Rule, except for the omission of certain information permitted by the Rule, and is subject to completion in a final Official Statement in accordance with the provisions of the Rule. The Official Statement, when supplemented and completed by an addendum or addenda furnished by the District and specifying the maturity dates, principal amounts and interest rates for the Notes, together with any other information required or permitted by law, shall constitute a "Final Official Statement" of the District with respect to the Notes, as that term is defined in the Rule.

No dealer, broker, salesman or other person has been authorized by the District or the Financial Advisor to give any information or to make any representations with respect to the Notes, other than the information and the representations contained in this Official Statement in connection with the offering described in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Notes described herein, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement (which includes the cover page, the table of contents and the appendices) has been obtained from the District and, as to other information, from sources other than the records of the District which are believed to be reliable. No representation or guarantee is made by the District or the Financial Advisor, however, as to the accuracy or completeness of such information from other sources, and nothing contained in this Official Statement is, or shall be construed as, a representation or relied upon as, a promise, representation or guarantee by the Financial Advisor. This Official Statement is submitted in connection with the sale of the Notes described herein and may not be reproduced, quoted or used, in whole or in part, for any other purposes.

The District has undertaken all responsibilities for any continuing disclosure to Owners of the Notes, as described herein, and the District has incurred such continuing responsibility to the Underwriter, to the Owners of the Notes and to any other person with respect to and as prescribed by Rule 15c2-12 promulgated by the Securities and Exchange Commission.

THE INFORMATION IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL AT ANY TIME IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

References herein to laws, statutes, rules, regulations, resolutions, agreements, reports, legal and other documents do not purport to be comprehensive or definitive. All references to any such documents are qualified in their entirety by reference to the provisions of particular documents, the full text of which may contain qualifications of and exceptions to statements made herein. This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

THE NOTES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE DISTRICT AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION MADE TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

SANTA CRUZ CITY SCHOOLS

Board of Education

Joe Hall
President

Barbara Thompson
Vice President

Judy Cook
Member

Matt Farrell
Member

Felix Robles
Member

Mick Routh
Member

Tim Willis
Member

District Administration

Roy G. Nelson
Superintendent

Richard C. Moss
Assistant Superintendent
Business Services

Marie Ishida
Assistant Superintendent
Human Resources

Don Iglesias
Assistant Superintendent
Instruction

PROFESSIONAL SERVICES

Bond Counsel

Quint & Thimmig LLP
San Francisco, California

Financial Advisor

Northcross, Hill & Ach, LLC
San Francisco, California

Paying Agent

State Street Bank and Trust
Company of California, N.A.
Los Angeles, California

Disclosure Counsel

Schuering Zimmerman & Scully, LLP
Sacramento, California

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Generally	1
Santa Cruz City Schools	1
The District	2
Purpose of Issue	2
Authority for Issuance of the Notes	2
Security for the Notes and Available Sources of Repayment	2
Description of the Notes	32
Tax Matters	3
County and State Not Liable for Repaying the Notes	3
Continuing Disclosure	3
Professionals Involved in the Offering	4
Offering and Delivery of the Notes	4
Other Information	4
THE NOTES	6
Generally	6
Authority for Issuance	6
Purpose of Issue	6
Description of the Notes	6
Security for the Notes and Available Sources of Repayment	7
County and State Not Liable for Repaying the Notes	7
Continuing Disclosure	7
Paying Agent; Bond Registrar	8
No Early Redemption	8
Book-Entry Only System	8
Discontinuation of Book-Entry Only System; Payment to Beneficial Owners	10
THE FINANCING PLAN	11
The Projects	11
SANTA CRUZ COUNTY INVESTMENT POOL	11
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS	13
Article XIIIA of the California Constitution - Property Tax Rate Limitations	13
Legislation Implementing Article XIIIA	14
Article XIIIB of the California Constitution	14
Unitary Property	15
Proposition 62	15
Proposition 98	16
Proposition 111	16
Proposition 187	17
California Constitution Articles XIIIC and XIIID (Proposition 218)	19

	Page
STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION	20
General	20
State Funding of Education	20
Effect of State Budget on Revenues	21
Combined Revenue Sources-Summary	24
Budget Process	26
SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ ELEMENTARY SCHOOL DISTRICT	27
Generally	27
The Board of Education	27
Superintendent and Key Administrative Personnel	28
Student Enrollment	28
Employee Relations	29
Pension Programs	30
Accounting Practices	30
General and Governmental Funds Budget	31
Fiscal Year 1998-99 Financial Summary	31
Comparative Financial Summaries	33
Current Financial Status	34
Financial Statements and General Long-Term Obligations	34
Property Taxation	35
Assessed Valuations	37
Teeter Plan	89
Principal Taxpayers	39
Statement of Direct and Overlapping Debt	40
GENERAL ECONOMY OF COUNTY AND DISTRICTS	41
General Information	41
Population	42
Employment	42
Industry	43
Agricultural Products	43
Commercial Activity	44
LEGAL MATTERS	45
Tax Matters	45
Legality for Investment in California	45
Continuing Disclosure	45
Absence of Litigation	45
Legal Opinions	46
MISCELLANEOUS	46
Rating	46
Negotiated Sale	46
Additional Information	47

APPENDIX A:	SELECTED PORTIONS OF SANTA CRUZ CITY SCHOOLS AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1999	A-1
APPENDIX B:	FORM OF BOND COUNSEL OPINION	B-1
APPENDIX C:	FORM OF CONTINUING DISCLOSURE CERTIFICATE	C-1

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$5,100,000
SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
(Santa Cruz County, California)
BOND ANTICIPATION NOTES, SERIES 2000

INTRODUCTION

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

Generally

This Official Statement has been prepared under the direction of the Santa Cruz City Elementary School District (the "District") in order to furnish information with respect to its sale of certain bond anticipation notes designated "Santa Cruz City Elementary School District, (Santa Cruz County, California), Bond Anticipation Notes, Series 2000" (the "Notes") in the principal amount of $5,100,000. The Notes have been authorized pursuant to a resolution of the Board of Trustees of the District adopted September 6, 2000 (the "Resolution"). The Notes will be issued in full conformity with the Constitution and laws of the State of California (the "State"), including Section 15150 of the California Education Code (the "Law"). The Notes are special obligations of the District payable solely from proceeds of general obligation bonds or another issue of short-term notes to be issued by the District prior to the maturity of the Notes.

Capitalized terms used herein and not defined herein shall have the meanings prescribed for such terms by the Resolution. This Official Statement contains brief descriptions of, among other things, the Notes, the use of the proceeds of the Notes, the security for the Notes, the District and other information together with summaries of certain provisions of the Notes and certain legal documents (all as defined and described herein) pertaining thereto. Such descriptions and information do not purport to be comprehensive or definitive. All such descriptions are qualified in their entirety by reference to such documents, copies of which are available from the Office of the Assistant Superintendent, Business Services, of the District, to the attention of Richard Moss, Assistant Superintendent, Business Services, at 2931 Mission Street, Santa Cruz, California 95060, telephone 831-429-3822.

Santa Cruz City Schools

The Santa Cruz City Schools are comprised of the District and the Santa Cruz City High School District (the "High School District" and, with the District being collectively referred to herein as the "Districts"). The Districts are governed by a common seven member Board of Education (the "Board"). The District draws its students solely from within the City of Santa Cruz, encompassing some 12 square miles. The High School District includes much of the northern portion of Santa Cruz County, encompassing approximately 155 square miles and draws its student population from the communities of Davenport, Bonny Doon, Scotts Valley, Santa Cruz, Live Oak, Soquel and Capitola.

Concurrently with the issuance of the Notes, bond anticipation notes of the High School District will also be issued, aggregating $10,890,000 in original principal amount and designated as "Santa Cruz City High School District (Santa Cruz County, California) Bond Anticipation Notes, Series 2000." While the property encompassed by the District and the High School District overlap to the extent that the

District and the High School District both encompass the City of Santa Cruz, their boundaries are not coterminous and the High School District encompasses a larger land area.

The District

The District was established in 1857, is primarily located in and encompasses the City of Santa Cruz, and is approximately 60 miles south of San Francisco. The District includes an area of approximately 12 square miles. The District currently operates seven elementary schools (K-6) serving an estimated 3,094 students. The District's average daily attendance for fiscal year 1998-99 was 2,914 and the District has a 1999-2000 assessed valuation of $3,918,109,587, with an adjusted assessed valuation of $3,376,046,697 after giving effect to a redevelopment incremental valuation of $542,062,890. See **"SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT."**

Purpose of Issue

Issuance of the Notes will provide funds for the acquisition or improvement of real property, including financing the costs of renovation, construction and modernization of classrooms and related school facilities and improvements, and for payment of the costs of issuance of the Notes (the "Projects") all of which will constitute purposes for which general obligation bonds of the District have been authorized to be issued in the aggregate principal amount of $28,100,000 pursuant to a bond election held April 14, 1998. The District has previously issued general obligation bonds in the amount of $7,000,000 in 1998 and $15,500,000 in 2000. The District currently has $5,600,000 in authorized but unissued general obligation bonds.

Authority for Issuance of the Notes

The Notes are issued under the authority of the Law and pursuant to the Resolution. See **"THE NOTES - Authority for Issuance"** herein.

Security For the Notes and Available Sources of Repayment

The principal of and interest on the Notes will be paid solely from the following sources: (a) from the proceeds of general obligation bonds issued by the District for the purpose of providing long-term financing for the Projects, or (b) from the proceeds of another issue of short-term notes issued by the District under the Law.

The District has covenanted in the Resolution to issue a portion of the remaining authorized but unissued general obligation bonds and currently anticipates providing for the institution of proceedings for such issuance during August 2001 and in an amount which would be sufficient to pay the full amount of principal of and interest on the outstanding Notes on October 25, 2001. However, should the District not authorize the issuance of such general obligation bonds by August 1, 2001, the District will provide for initiation of proceedings for the issuance and sale of another series of bond anticipation notes on or before October 25, 2001, in an amount sufficient to pay the full amount of principal of and interest on the outstanding Notes coming due and payable at the maturity of the Notes on October 25, 2001. If a second series of bond anticipation notes is issued and the proceeds thereof used to pay and redeem the Notes, the District anticipates issuing general obligation bonds during August 2002 for payment and redemption of the second series of notes on or before October 31, 2002.

Description of the Notes

The Notes will be issued in the aggregate principal amount of $5,100,000 in denominations of $5,000 or any integral multiples thereof. The Notes will be dated the date of delivery thereof and will mature on October 25, 2001. The Notes shall bear interest at the rate stated thereon, payable at maturity and computed on a 30-day month/360-day year basis. The Notes will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee for the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Notes. Individual purchases will be made only in book-entry form. Purchasers will not receive certificates representing their interest in the Notes purchased. As long as Cede & Co. is the registered owner of the Notes, as. nominee of DTC, references herein to the registered owners shall mean Cede & Co. as aforesaid and shall not mean the Beneficial Owners (as defined herein) of the Notes.

As long as Cede & Co. is the registered owner of the Notes, principal of and interest on the Notes are payable by wire transfer on the same day funds are transferred by State Street Bank and Trust Company of California, N.A. (the "Paying Agent"), to Cede & Co., as nominee for DTC, which will in turn remit such amounts to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners. (See "Book-Entry Only System", below.) The Notes are not subject to redemption prior to maturity. See **"THE NOTES - Generally"** herein.

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject to certain qualifications described herein, under existing law, interest on the Notes is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, although 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. In the further opinion of Bond Counsel, interest on the Notes is exempt from personal income taxes imposed by the State of California (the "State"). See **"LEGAL MATTERS - Tax Matters"** herein.

County and State Not Liable for Repaying the Notes

The principal of and interest on the Notes do not constitute a debt of the County, the State of California, or any of its political subdivisions other than the District, or any of the officers, agents or employees thereof, and neither the County, the State of California, any of its political subdivisions, nor any of the officers, agents or employees thereof shall be liable thereon. In no event shall the principal of and interest on Notes be payable out of any funds or properties of the District other than the proceeds of the General Obligation Bonds issued for such purpose and from amounts held in the funds and accounts established under the Resolution.

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the Notes to provide notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the District with the Municipal Securities Rule Making Board (and with the appropriate State information depository, if any). These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply, in all material respects, with an undertaking pursuant to said Rule. The specific nature of the information to be contained in the notices of material events is included below under the caption **"APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE."** Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure.

Professionals Involved in the Offering

Northcross, Hill & Ach, LLC, San Francisco, California, is the District's financial advisor (the "Financial Advisor") with respect to the Notes. All proceedings in connection with the issuance of the Notes are subject to the approval of Quint & Thimmig LLP, San Francisco, California, Bond Counsel to the District. Certain legal matters in connection with the offering and sale of the Notes will be passed upon by Schuering Zimmerman & Scully, LLP, Sacramento, California, as Disclosure Counsel. State Street Bank and Trust Company of California, N.A., Los Angeles, California, will act as the Paying Agent. Northcross, Hill & Ach, LLC, Quint & Thimmig LLP, and Schuering Zimmerman & Scully, LLP will receive compensation solely from the proceeds of and contingent upon the sale and delivery of the Notes.

Offering and Delivery of the Notes

The Notes are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that The Notes in book-entry form will be available for delivery through DTC in New York, New York on or about October 31, 2000.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Copies of documents referred to herein and information concerning the Notes are available from the Santa Cruz City Schools, 2931 Mission Street, Santa Cruz, California 95060, telephone: (831) 429-3822. The District may impose a charge for copying, mailing and handling.

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

The information set forth in this Official Statement (which includes the cover page, the table of contents and the Appendices) has been obtained from the District and from sources other than the records of the District which are believed to be reliable. No representation or guarantee is made by the District or the Financial Advisor as to the accuracy or completeness of such information from other sources, and nothing contained in this Official Statement is, or shall be construed as a representation or relied upon as, a promise or representation by the District or the Financial Advisor. This Official Statement is submitted in connection with the sale of the Notes described herein and may not be reproduced, quoted or used, in whole or in part, for any other purposes.

References herein to statutes, laws, rules, regulations, resolutions, agreements, reports and legal and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the provisions of the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE NOTES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

END OF INTRODUCTION

THE NOTES

Generally

This Official Statement has been prepared under the direction of the Santa Cruz City Elementary School District (the "District") in order to furnish information with respect to its sale of certain bond anticipation notes designated "Santa Cruz City Elementary School District, (Santa Cruz County, California), Bond Anticipation Notes, Series 2000" (the "Notes") in the principal amount of $5,100,000. The Notes have been authorized pursuant to a resolution of the Board of Trustees of the District adopted September 6, 2000 (the "Resolution"). The Notes will be issued in full conformity with the Constitution and laws of the State of California (the "State"), including Section 15150 of the California Education Code (the "Law"). The Notes are special obligations of the District payable solely from proceeds of general obligation bonds or another issue of short-term notes to be issued by the District prior to the maturity of the Notes.

Authority for Issuance

The Notes are issued under the authority of the Law and pursuant to the Resolution.

Purpose of Issue

Issuance of the Notes will provide funds for the short-term financing of acquisition and construction of new schools and to improve and repair existing schools (the "Projects") all of which will constitute purposes for which general obligation bonds of the District have been authorized to be issued in the aggregate principal amount of $28,100,000 pursuant to a bond election held April 14, 1998. The District has previously issued general obligation bonds in the amount of $7,000,000 in 1998 and $15,500,000 in 2000. The District currently has $5,600,000 in authorized but unissued general obligation bonds. See **"THE FINANCING PLAN"** herein.

Description of the Notes

The Notes will be issued in the aggregate principal amount of $5,100,000 in denominations of $5,000 or any integral multiples thereof. The Notes will be dated the date of delivery thereof and will mature on October 25, 2001. The Notes shall bear interest at the rate stated thereon, payable at maturity and computed on a 30-day month/360-day year basis. The Notes will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee for the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Notes. Individual purchases will be made only in book-entry form. Purchasers will not receive certificates representing their interest in. the Notes purchased. As long as Cede & Co. is the registered owner of the Notes, as. nominee of DTC, references herein to the registered owners shall mean Cede & Co. as aforesaid and shall not mean the Beneficial Owners (as defined herein) of the Notes.

As long as Cede & Co. is the registered owner of the Notes, principal of and interest on the Notes are payable by wire transfer on the same day funds are transferred by State Street Bank and Trust Company of California, N.A. (the "Paying Agent"), to Cede & Co., as nominee for DTC, which will in turn remit such amounts to DTC Participants (as defined herein) for subsequent distribution to the Beneficial Owners. (See "Book-Entry Only System", below.) The Notes are not subject to redemption prior to maturity.

Security for the Notes and Available Sources of Repayment

The Notes shall be secured by a pledge of the proceeds of the General Obligation Bonds, which shall be issued under and as provided for in the Resolution. Not later than August 1, 2001, the District shall institute proceedings for the issuance and sale of General Obligation Bonds in a principal amount sufficient to pay the full amount of principal of and interest on the Outstanding Notes coming due and payable on the Maturity Date. Upon the issuance of such General Obligation Bonds by the District, the District shall deposit the proceeds thereof in the Note Repayment Fund. In the event that the District shall not have issued General Obligation Bonds and deposited the proceeds thereof in the Note Repayment Fund by September 1, 2001, as provided in the Resolution, the District shall promptly institute proceedings for the issuance and sale of its bond anticipation notes in an amount sufficient to pay the full amount of principal of and interest on the Outstanding Notes coming due and payable on the Maturity Date and thereafter make provision for issuance of its General Obligation Bonds on or about August 1, 2002, the proceeds of which shall be used for payment of principal of and interest on such second series of Notes. Bond anticipation notes issued by the District shall be secured by a pledge of and lien upon the proceeds of the General Obligation Bonds issued for the specific purpose of paying principal of and interest on such bond anticipation notes, and shall contain such other provisions for the security thereof as the District shall deem advisable and necessary to ensure the successful issuance and sale thereof.

The Notes shall be special obligations of the District payable solely from the proceeds of the General Obligation Bonds issued for such purpose and from amounts held in the funds and accounts established under the Resolution. The Notes shall not constitute an obligation of the general fund of the District and shall not be payable from any source of funds of the District other than the General Obligation Bonds issued for such purpose, or from the proceeds of an additional series of bond anticipation notes of the District.

County and State Not Liable for Repaying the Notes

The principal of and interest on the Notes do not constitute a debt of the County, the State of California, or any of its political subdivisions other than the District, or any of the officers, agents or employees thereof, and neither the County, the State of California, any of its political subdivisions, nor any of the officers, agents or employees thereof shall be liable thereon. In no event shall the principal of and interest on Notes be payable out of any funds or properties of the District other than the proceeds of the General Obligation Bonds issued for such purpose and from amounts held in the funds and accounts established under the Resolution.

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the Notes to provide notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the District with the Municipal Securities Rule Making Board (and with the appropriate State information depository, if any). These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply, in all material respects, with an undertaking pursuant to said Rule. The specific nature of the information to be contained in the notices of material events is included below under the caption "**APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE.**" Neither the County nor any other entity other than the District shall have any obligation or incur any liability whatsoever with respect to the performance of the District's duties regarding continuing disclosure.

Paying Agent; Bond Registrar

State Street Bank and Trust Company of California, N.A., located in Los Angeles, California, will act as the authenticating agent, paying agent, transfer agent and bond registrar for the Notes (the "Paying Agent," as herein defined). As long as DTC's book-entry method is used for the Notes, the Paying Agent will send any notice of prepayment or other notices to Owners only to Cede & Co., as nominee of DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment and redemption of the Notes called for prepayment and redemption or of any other action premised on such notice.

The Paying Agent, the District, the Financial Advisor and the Underwriter of the Notes have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Notes.

So long as the Outstanding Notes are registered in the name of Cede & Co. or its registered assigns, the Paying Agent and the District shall cooperate with Cede & Co., as sole registered Owner, or its registered assigns in effecting payment of the principal of and interest on the Notes by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

No Early Redemption

The Notes are not subject to redemption prior to maturity.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Notes, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered Owner of the Notes, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate for each maturity will be issued for the Notes in the aggregate principal amount of each 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 ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct 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, LLC., 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 Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, 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 Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from District or Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, the

District or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying 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 Notes at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

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

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

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

The principal of the Notes and any premium upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Notes at the office of the Paying Agent, initially located in Los Angeles, California. Interest on the Notes will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered Owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered Owner of at least $1,000,000 in aggregate principal amount, interest shall be wired to a bank and account number on file with the Paying Agent as of five (5) days before the applicable Record Date.

Notes may be exchanged for a like aggregate principal amount of the Notes of authorized denominations and of the same maturity, upon presentation and surrender at the Principal Office of the Paying Agent, together with a request for exchange signed by the registered Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Series 2000 Note may be transferred only on the Note registration books upon presentation and surrender of the Note at such office of the Paying Agent together with an assignment executed by the registered Owner or by a person legally empowered to do so in a written instrument of transfer satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Series 2000 Note or Notes of any authorized denomination or denominations requested by the Owner equal in the aggregate to the unmatured principal amount of the Series 2000 Note surrendered and bearing interest at the same rate and maturing on the same date. The Paying Agent shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Neither the District nor the Paying Agent will be required to exchange or transfer any Notes (a) during the period beginning fifteen (15) days prior to the date established by the Paying Agent for selection of Notes for redemption or (b) with respect to a Series 2000 Note after such Series 2000 Note is selected for redemption.

THE FINANCING PLAN

The Projects

The Notes are being issued for the purpose of (i) providing funds for the acquisition or improvement of real property, including financing the costs of renovation, construction and modernization of classrooms and related school facilities and improvements (the "Projects," as defined above), and (ii) payment of the costs of issuance of the Notes. To the extent applicable, proceeds of the Notes not required and used for such purposes are to be used to pay principal of and interest on the Notes.

SANTA CRUZ COUNTY INVESTMENT POOL

State law requires that all moneys of the County, special districts, and school districts (including the District) be held by the Treasurer. All surplus funds of the County are invested by the Treasurer. The County's General Fund and such other funds are maintained in the County Pooled Investment Fund (the "County Pool"), which is managed by the Treasurer. The County Pool is governed by the County's Investment Policy for Pooled Investment Funds (the "Investment Policy") as authorized by Sections 53601 *et seq.* and 53635 *et seq.* of the Government Code of the State which is presented to and approved annually by the Board of Supervisors. This policy defines investment funds, authorized instruments, credit quality required, maximum maturities and concentrations and collateral requirements, and provides the approved credit standards, investment objectives and specific constraints of the portfolios managed. The Investment Policy also authorizes the establishment and periodic review of Investment Guidelines which provide specific guidance to the portfolio managers. These Investment Guidelines are fully consistent with and subordinate to the Investment Policy.

The following information was provided by the District and the Santa Cruz County Treasurer's office:

The Santa Cruz County Treasurer-Tax Collector (the "Treasurer") is responsible for the investment of all moneys deposited into the County Treasury. In addition to the various funds of the County, many local agencies, such as cities and school districts within the County, deposit excess funds with the Treasurer for investment in accordance with State law. Each depositor is assigned a distinct fund number within the County Treasury. Cash represented by the fund balances is commingled in a Pooled Cash Portfolio ("Pool"). Investments are placed in those securities authorized by California Government Code Section 53635, which includes obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate bonds, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities.

Each year, the Treasurer prepares an Annual Statement of Investment Policy (the "Investment Policy"), which provides a framework for the investment practices relating to the County Treasury. As a matter of County practice, the Investment Policy is filed annually with the Board of Supervisors. The current Investment Policy provides that the County's investment objectives are "capital preservation and liquidity, while seeking high current income consistent with capital preservation and liquidity." The current Investment Policy also contains certain restrictions on the percentage of the assets of the Pool which may be invested in the securities of a single issuer as well as the percentage of the assets which may be invested in certain types of securities. Current Investment Policy as well as State law prohibit purchase of any inverse floater types of securities. In addition, although State law allows the use of reverse repurchase agreements, as of the date of this Official Statement, the Pool did not contain any such agreements and the Investment Policy expressly prohibits investment in reverse repurchase agreements.

The Investment Policy may be changed at any time at the sole discretion of the County (subject to the State law provisions relating to authorized investments). Therefore, there can be no assurance that State law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under applicable State law or under the Investment Policy, or that the objectives of the County with respect to investments will not change.

The State legislature has enacted legislation which amended, among other things, the authorized investment language pertaining to investments that may be made with funds generally on deposit in a county treasury. This legislation, S.B. 866, restricts investments in reverse repurchase agreements and prohibits investments in inverse floaters, range bonds, interest only strips, or any security that could result in zero interest accrual periods if held to maturity (provided, however, that any such securities presently owned by a treasury pool may be held to maturity). S.B. 866 became effective as of January 1, 1996. The County has revised the County Investment Policy in accordance with S.B. 866 in order to fully comply with applicable law.

S.B. 866 mandates the creation of an oversight committee comprised of three to eleven members, which shall be appointed from the following: the county treasurer, the county auditor/auditor controller or director of finance, a representative appointed by the county board of supervisors, up to five members from the general public, a special districts representative and a school districts representative. The role of the oversight committee is to review and monitor an investment policy that is prepared by the county treasurer as described below.

The State legislature has also enacted legislation requiring county treasurer-tax collectors to annually prepare and submit to the State's Pooled Investment Board a written statement of investment policy and a quarterly report on investments in the county pooled investment portfolio. This legislation, S.B. 564, also requires county treasurer-tax collectors to prepare and submit to the county Board of Supervisors and the oversight committee established under S.B. 866 a statement of investment policy for approval at a public meeting. Any amendments to such investment policy must also be considered by the county Board of Supervisors at a public meeting. In addition, the county treasurer-tax collectors are required to tender a quarterly report to the chief executive officer, the county auditor, controller, secretary or corresponding officer of the local agency and the county Board of Supervisors describing, among other things, the types, maturities and market values of the various securities in the county pooled investment portfolio and any noncompliance with governing law during such quarter.

The State Legislature may from time to time consider various bills submitted for legislative enactment which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities. Therefore, there can be no assurances that future investments in the Pool will not vary significantly from the investments described herein or as currently authorized by State law.

Investments in the Pool are marked-to-market monthly by the County's custodian bank. The market value of investments in the Pool (by investments type) as of the close of business on December 31, 1999 is set forth in the chart below. Although, as shown below, the market value of certain types of investments is less that the County's net book value for those investments, the County does not anticipate that it will realize any losses with respect to such investments since the County intends to hold such investments until their maturity. However, unexpected withdrawals from the Pool could force the sale of some investments prior to maturity which could also result in realization of losses with respect to those particular investments. Such unexpected withdrawals are presently considered unlikely by the County, based on historical patterns relating to the Pool.

The following table also provides certain information with respect to the investments accounted for in the Pool as of the close of business on September 30, 2000. As described above, a wide range of investments are authorized under State law. Therefore, there can be no assurances that future investments in the Pool will not vary significantly from the investments described below. In addition, the market value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates at any given time, changes in credit quality of particular investments and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly in the future from the values described below. The complete Statement of Investment Policy of the County of Santa Cruz is available from the office of the Santa Cruz County Treasurer at 701 Ocean Street, Santa Cruz, California 95060; telephone – 831-454-2450.

Table 1

COUNTY OF SANTA CRUZ PORTFOLIO STATISTICS
(As of September 30, 2000)

Investments	Net Book Value	Percent of Portfolio	Average Term Days	Average Days to Maturity	YTM 360 day Equivalent	YTM 365 day Equivalent
Federal Agency Issues - Coupon	$ 74,857,240.28	15.43	1,164	751	6.196	6.282
Commercial Paper - Discount	54,429,155.00	11.22	57	19	6.592	6.684
Medium Term Notes	93,820,780.00	19.33	596	309	6.674	6.767
Negotiable CDs	120,222,740.65	24.77	221	138	6.676	6.768
Repurchase Agreements	4,409,000.00	0.91	4	1	6.190	6.276
Local Agency Investment Fund (LAIF)	45,367,735.04	9.35	1	1	6.416	6.505
Miscellaneous Securities – Coupon	14,950,000.00	3.08	1,017	307	6.242	6.329
Miscellaneous Securities – Coupon 2	19,698,000.00	4.06	965	246	6.620	6.712
Managed Pool Accounts - 2	57,505,875.00	11.85	1	1	5.686	5.765
TOTAL INVESTMENTS	$485,260,525.97	100.00%	427	232	6.430	6.520

Source: County of Santa Cruz Treasurer-Tax Collector.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIIIA of the California Constitution – Property Tax Rate Limitations

On June 6, 1978, California voters approved Proposition 13, which added Article XIIIA to the California Constitution ("Article XIIIA"). Article XIIIA limits the amount of any *ad valorem* taxes on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIIIA 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 XIIIA 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." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

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

The California Supreme Court and the United States Supreme Court have both upheld the constitutionality of Article XIIIA.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times by the California legislature since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by each county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% 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 Fiscal Year 1981-82, assessors in California no longer recorded property values on tax rolls at the assessed value of 25% of market value which was expressed as $4 per $100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property values included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved by the voters of the State on November 6, 1979, thereby adding Article XIIIB to the California Constitution ("Article XIIIB"). Under Article XIIIB, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitations" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitations" including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the required two-thirds percentage of voters. In general terms, the appropriations limit was originally to be based on certain Fiscal Year 1978-79 expenditures, and adjusted annually thereafter to reflect changes in consumer prices, populations and services provided by various entities and political subdivisions. Among other provisions of Article XIIIB, if these entities' revenues in any consecutive two-year period exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the District receives any proceeds of taxes in excess of the allowable limit, the District may implement an existing procedure to concurrently increase the District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIIIB were modified by Proposition 111 in 1990 (see **"CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS - Proposition 111"**).

Unitary Property

Recent changes to the Revenue and Taxation Code provide that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with Fiscal Year 1988-89, will be allocated as follows: (i) for revenues generated from the one percent tax rate, (a) each jurisdiction will receive a percentage up to 102% of its prior year State-assessed revenue; and (b) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or excess revenues by a specified formula; and (ii) for revenue generated from the application of the debt service tax rate to county-wide unitary taxable value, each jurisdiction will receive a percentage share of revenue based on the jurisdiction's annual debt service requirements and the percentage of property taxes received by each jurisdiction from unitary property taxes. These provisions apply to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

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

On February 1, 1991, the Superior Court for the County of Sacramento issued a Statement of Decision in *AT&T Communications of California, et al v. State Board of Equalization*, which reduced the valuation of certain unitary property owned by AT&T for property tax purposes. Under the decision, the valuation method used by the Board of Equalization to value unitary utility property was declared illegal and a new method of valuation, resulting in significantly lower values and therefore significantly lower property tax revenues, was imposed. The effect on AT&T's statewide assessed value was to reduce this value from approximately $1.75 billion to approximately $1.1 billion. The resulting refund ordered by the court exceeded $9 million. On July 14, 1993, the Superior Court for the County of Sacramento entered a judgment validating a settlement agreement among all California counties and several public utility companies affecting the levy and collection of unitary property taxes. The settlement agreement provides for a method of valuing unitary property for eight years, beginning in Fiscal Year 1991-92. This method of valuation has resulted in a reduction of unitary taxes collected by counties in California.

Proposition 62

On November 4, 1986, California voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters, and requires new or higher special taxes to be approved by two-thirds of both such local agency's governing body and such local agency's voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) requires local agencies to stop collecting any new or higher tax adopted on or after August 1, 1985, unless a majority of the voters approved the tax by November 4, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995, in *Santa Clara County Transportation Authority v. Guardino.* This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. However, the requirements of Proposition 62 have in large part now been superseded by the enactment of Article XIIIC of the California Constitution (Proposition 218) passed in 1996, as described below.

Proposition 98

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level, as well as the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (herein referred to collectively as "K-14 districts") at a level equal to the greater of (a) the same percentage of General Fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

Certain consequences of applying the provisions of the Accountability Act continue to remain unclear. Therefore, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of General Fund revenues to be allocated to K-14 districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, however, the Accountability Act is expected to continue to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Any such transfer to K-14 districts would be excluded from the appropriations limit for K-14 districts and the K-14 district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to K-14 districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Proposition 111

On June 5, 1990, the voters of California also approved the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111"), which further modified Article XIIIB of the State Constitution, including the spending limit and the education funding provisions of Proposition 98, as well as Sections 8 and 8.5 of Article XVI of the State Constitution relating to appropriations limitations and school funding priority and allocations. Proposition 111 took effect on July 1, 1990.

The most significant provisions of Proposition 111 are summarized as follows:

a. ***Annual Adjustments to Spending Limit***. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. ***Treatment of Excess Tax Revenues***. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next Fiscal Year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit are not to be increased by this amount.

c. ***Exclusions from Spending Limit***. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which counted on raising over $15 billion in additional taxes over the next ten years to fund transportation programs.

d. ***Recalculation of Appropriations Limit***. The Article XIIIB appropriations limit for each unit of government, including the State, was required to be recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had then been in effect.

e. ***School Funding Guarantee***. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 districts a certain amount of State General Fund revenues. Under prior law, K-14 districts were guaranteed the greater of (1) 40.9% of State General Fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State General Fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. 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 State General Fund revenue growth exceeds personal income growth.

Proposition 187

On November 8, 1994, the voters in California approved Proposition 187, an initiative statute called "Illegal Aliens, Ineligibility for Public Services, Verification and Reporting Initiative Statute" ("Proposition 187"). Proposition 187 specifically prohibited funding by the State of social services, health care services and public school education for the benefit of any person not verified as either a United States citizen or a person legally admitted to the United States. Among the provisions in Proposition 187 pertaining to public school education, the measure required, commencing January 1, 1995, that every school district in the State verify the legal status of every child enrolling in the district for the first time. By January 1, 1996, each school district must also verify the legal status of children already enrolled in the district and of all parents or guardians of all students. If the district "reasonably suspects" that a student, parent or guardian is not legally in the United States, that district must report the student to the United States Immigration and Naturalization Service and certain other parties. The measure also prohibited a school district from providing education to a student it does not verify as either a United States citizen or a person legally admitted to the United States. The State Legislative Analyst estimated that verification costs could be in the tens of millions of dollars on a statewide level (including verification costs incurred by other local governments) with first-year costs potentially in excess of $100 million.

Following adoption of Proposition 187, the Secretary of the United States Department of Education indicated that the reporting requirement in Proposition 187 could jeopardize the ability of school districts to receive funds under the Family Educational Rights and Privacy Act ("FERPA"), which generally prohibits schools that receive federal funds from disclosing information in student records without parental consent.

Federal Court Procedural Motions; Preliminary Injunctions and Summary Judgment. After Proposition 187 was adopted, several actions challenging its constitutionality were commenced in federal and state courts in California against then California Governor Pete Wilson, among others. Five actions initially filed in the United States District Court were later consolidated in the United States District Court, Central District of California before Judge Mariana R. Pfaelzer.

On December 14, 1994, Judge Pfaelzer granted the plaintiffs' motion for a preliminary injunction, enjoining the implementation and enforcement of sections 4, 5, 6, 7 and 9 of Proposition 187. On November 20, 1995, Judge Pfaelzer granted in part and denied in part the plaintiffs' motion for summary judgment. The court granted the summary judgment motions with respect to the classification, notification and cooperation/reporting provisions of sections 4 through 9 of Proposition 187 on the ground that these provisions created an impermissible state scheme to regulate immigration and were therefore preempted by federal law. The court further held that the denial of primary and secondary education in section 7 of this Proposition conflicted with a 1982 United States Supreme Court decision in *Plyler v. Doe*, which held that the Equal Protection Clause of the Fourteenth Amendment prohibits states from excluding undocumented alien children from public schools.

The court denied plaintiffs' motion for summary judgment with respect to sections 2 and 3 and with respect to the benefits denial provisions in sections 5, 6 and 8 on the basis of the defendants' claim that they could promulgate regulations that would bring the procedure for denying benefits into conformity with federal law. Finally, the court further denied the motions for summary judgment with respect to section 8, which denies post-secondary education to certain categories of non-citizens.

The Federal Personal Responsibility Act. On August 22, 1996, President Clinton signed the Personal Responsibility Act (the "PRA"), a comprehensive statutory scheme for determining aliens' eligibility for federal, state and local benefits and services. The PRA states that it is the immigration policy of the United States to restrict alien access to substantially all public benefits.

Final District Court Resolution of Proposition 187. On March 13, 1998, Judge Pfaelzer ruled that the PRA preempts all of Proposition 187 except section 2 (which establishes state criminal penalties for the manufacture, distribution or sale of false documents to conceal the citizenship or alien status of another person), section 3 (which penalizes any person who uses false documents to conceal his or her true citizenship or resident alien status), and section 10 (which details the process for amendment of, and declares the severability of invalid portions of, the initiative).

Appeal and Mediation Proceedings. On March 25, 1998, the then Attorney General of California filed an appeal from the District Court's judgment. Subsequently, on April 26, 1999, the 9th Circuit U.S. Court of Appeals granted Governor Davis' request for mediation of the consolidated Proposition 187 cases, and on July 28, 1999, it was announced that mediation of all remaining Proposition 187 issues had been successfully mediated and resolved, including agreement that children residing illegally in California would be permitted to continue to attend public schools. Until full details of the mediated settlement become available, the School District is unable to predict the ultimate outcome to and fiscal impact on the District (if any) of the mediated settlement, including assessment of various costs to the School District of any future enforcement or compliance with any one or more of the provisions of Proposition 187 which would continue to remain in effect.

California Constitution Articles XIIIC and XIIID (Proposition 218)

As described above, under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Over the past 18 years, the voters have exercised this power through the adoption of Proposition 13 and similar measures, the most recent of which was approved as Proposition 218 in the general election held on November 5, 1996. Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the District. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives.

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

Article XIIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on the County Treasurer to levy a property tax sufficient to pay debt service on the Notes 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 Notes. Legislation adopted in 1997 provides that Article XIIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District. No developer fees imposed by the District are pledged or expected to be used to pay the Notes.

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.

STATE OF CALIFORNIA FINANCES AND SUPPORT OF SCHOOL EDUCATION

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 Notes is payable from State revenues. The Notes are payable from ad valorem taxes to be levied upon all taxable property within the District, as described herein.

General

The State requires that from all State revenues there shall first be set apart the moneys to be applied for support of the public school systems and public institutions of higher education. These public education entities receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the State Legislature and, consequently, significantly affect the funding levels for both public school systems and public institutions of higher education. The Board of Education of the Santa Cruz City Schools acts as the governing board for both of the Districts and adopts a single, consolidated budget for both Districts. Further, the annual audited financial reports for the Districts are also presented on a consolidated basis, combining the report on the balance sheet, revenues, and expenditures for both of the 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. The 1998-99 and 1999-2000 budgeted ADA and Annual Revenue Limits per ADA for the Districts as established by the State are shown in the following table:

Table 2

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
ADA and Annual Revenue Limit Per ADA

Actual ADA 1998-1999	Estimated Actual Revenue Limit per ADA 1999-2000	Projected ADA 1999-2000	Projected Revenue Limit per ADA 2000-2001
2914	$4,111	2839	$4,252

Source: Santa Cruz City Schools

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 Districts' share of the State revenues has fluctuated, such that the Districts are becoming relatively more dependent on local property tax revenue. Nonetheless, the influence of the State in the funding for the Districts has been and 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 the discussion under **"CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES, FINANCES AND APPROPRIATIONS - Proposition 98"** herein.

During the late 1980s and early 1990s, the State encountered significant economic difficulties which impacted and caused decreased levels of funding for public school districts throughout the State. Subsequently, the State has experienced an economic recovery which essentially began during the 1994-95 Fiscal Year. Some Cost of Living Adjustments ("COLAs") that were either not provided or were provided on a deficited basis in State budgets during the recession period have now again been included in the 1998-99 and 1999-2000 State Budgets.

Effect of State Budget on Revenues

Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see **"SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ ELEMENTARY SCHOOL DISTRICT - Current Financial Status"** and **"- General and Governmental Funds Budgets"** herein). State funds typically make up the majority of a district's revenue limit. School districts also receive substantial funding from the State for various categorical programs. Revenues received by the Districts from all State sources accounted for approximately 43.13% of total governmental fund revenues of all types in Fiscal Year 1998-99.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see the discussion **"CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES, FINANCES AND APPROPRIATIONS"**), the condition of the State economy (which affects total revenue available to the State General Fund) and the annual State budget process. In the Fiscal Years prior to Fiscal Year 1994-95, the prolonged economic recession generally produced a recurring imbalance in the State budget and a limited ability to increase the funding for K-12 school districts.

Recent State Budget Process. The recession in California during the first part of the 1990s seriously affected State tax revenues, which basically mirror economic conditions. It also caused increased expenditures for health and welfare programs. The State was also faced with a structural imbalance in its budget with the largest programs supported by its General Fund - K-12 schools and community colleges, health and welfare and corrections - growing at rates higher than the growth rates for principal revenue sources of the State General Fund. As a result of these factors and others, from the late 1980s until 1992-93, the State had a period of budget imbalance. During this period, expenditures exceeded revenues in four out of six years, and the State accumulated and sustained a budget deficit in the Special Fund for Economic Uncertainties approaching $2.8 billion at its peak at June 30, 1993. Starting in the 1990-91 Fiscal Year and for each Fiscal Year thereafter until Fiscal Year 1994-95, each budget required various actions to bring projected revenues and expenditures into balance and to close larger "budget gaps" which were identified. The Legislature and Governor eventually agreed on a number of different steps in order to produce a State budget in the Fiscal Years 1991-92 to 1994-95 including:

- Significant cuts in health and welfare program expenditures;
- Transfers of program responsibilities and funding from the State to local governments, coupled with some reduction in mandates on local government;
- Transfer of about $3.6 billion in local property tax revenues from cities, counties, redevelopment agencies and some other districts to local school districts, thereby reducing State funding for schools under Proposition 98;
- Reduction in growth of support for higher education programs, coupled with increases in student fees;
- Revenue increases (particularly in the Fiscal Year 1991-92 budget), most of which were for a short duration;
- Increased reliance on aid from the federal government to offset the costs of incarcerating, educating and providing health and welfare services to illegal immigrants;
- Cash flow borrowing program using notes and warrants; and
- Various one-time adjustments and accounting changes.

Effect of Recovery of State Economy. The economic recovery in the State which began in Fiscal Year 1994-95 has continued to gain strength during the 1995-96, 1996-97, 1997-98, 1998-99 and 1999-2000 Fiscal Years. Statewide employment has increased during this period with personal income increasing at higher rates than in earlier years, with a corresponding decrease in unemployment rates and with inflation being essentially below the national average. The State Department of Finance has reported that the State's economy has maintained steady and relatively strong growth from 1995 through the present. Employment and retail sales continue to be higher than previous-year figures. The full effect of difficulties which continue in the economics of various Asian countries could continue to affect California, but the full extent of their impact on various sections of California's economy is difficult to predict. This growth in the State's economy has likewise resulted in improved conditions for the State budget with State budget surpluses in varying amounts having occurred since the 1995-96 Fiscal Year.

Effect of State Budget on School Funding. In the first half of the 1990s, the economic recession and the State budget imbalance resulted in K-12 school districts receiving no increase in per-student funding from the State. Per-student spending had essentially remained frozen, with no cost-of-living adjustments. However, commencing with the Fiscal Year 1995-96 State budget and continuing in the Fiscal Years 1996-97, 1997-98, 1998-99 and 1999-2000 State budgets, the recovering California economy and the resulting increase in State revenues has been reflected in improved State funding for K-12 districts over previous years. Recent trends in State budget support for education in California is noted as follows:

(a) ***Fiscal Year 1995-96 Budget***. For K-12 education, the Fiscal Year 1995-96 State budget provided a 2.73% cost-of-living adjustment to the revenue limit, the first such increase in five years. Other features of the Fiscal Year 1995-96 State budget for K-12 education included: (1) a one-time block grant for Fiscal Year 1994-95 to be used for deferred maintenance, educational technology, instructional materials, bus replacement and other nonrecurring costs; (2) expanded categorical funding for Fiscal Year 1995-96 including programs such as Healthy Start, Volunteer Mentor and Student Assessment Program; and (3) increased funding for revenue limit equalization among school districts. The Fiscal Year 1995-96 State budget also resolved a funding dispute relating to the repayment by school districts of loans from the State in Fiscal Year 1991-92 and Fiscal Year 1992-93 with respect to Proposition 98 funding. This dispute (*California Teachers' Association v. Gould*) was subsequently resolved by a decision to suspend the lawsuit and to reach a compromise in the repayment of the loans whereby the school districts and the State have each agreed to repay a portion of the loan.

(b) ***Fiscal Year 1996-97 Budget***. The Fiscal Year 1996-97 State budget was signed by the Governor on July 15, 1996. Based on expected continued growth and improvement in the California economy, the 1996-97 State budget provided for additional revenues for K-12 education, including a 3.2% cost-of living increase to revenue limit apportionments and to special education and child development programs. Other features of the Fiscal Year 1996-97 State budget for K-12 education include 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 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 the purchase of portable classrooms to reduce class size in primary grades; and (6) $200 million for reading improvement in elementary grades.

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

(d) ***Fiscal Year 1998-99 Budget***. On August 21, 1998, the Governor signed the Fiscal Year 1998-99 State Budget which anticipated State General Fund revenues and transfers of $56.3 billion (representing a 2.4% increase over the revised 1997-98 State budget amount) and expenditures of $58.3 billion (representing a 10.2% increase over the 1997-98 State budget amount). The State General Fund ended the 1997-98 Fiscal Year with a reserve of $3.1 billion, and ended the 1998-99 Fiscal Year with an increase in reserves in excess of $1.0 billion. Proposition 98 State funding for K-12 education was budgeted at $40.4 billion and represented a $1.96 billion increase over the revised Fiscal Year 1997-98 funding level. Overall K-12 funding for Fiscal Year 1998-99 was established at approximately $5,735 per pupil, an increase of $286 or 5.2% over the revised per pupil expenditures for Fiscal Year 1997-98. The 1998-99 State budget allocation for K-12 education exceeded the Proposition 98 spending guarantee by almost $800 million, which represented the first time the Proposition 98 spending guarantee has been exceeded. The 1998-99 budget also imposed a minimum 180 days of instruction per year for school districts.

(e) ***1999-2000 Fiscal Year Budget***. On June 29, 1999, the Governor signed the State Budget Act for Fiscal Year 1999-2000. The budget projected General Fund revenues and transfers in 1999-2000 of $62.9 billion, representing an increase of 8.7% from Fiscal Year 1998-99. Total General Fund allocations of $26.4 billion for K-12 Education now represent approximately 41.5% of the total General Fund Budget, an increase of 6.6% over the 1998-99 budget. The budget provided for a total of $38 billion in K-12 Proposition 98 resources, which represents an increase of $2.8 billion, or 8%, over the 1998-99 Budget Act. The budget also includes a statutory Cost of Living Adjustment (COLA) of 1.41 percent. The State revenue spending limit per pupil increased by almost 5% from $5,751 in the 1998-99 Budget Act to $6,025 per pupil in 1999-2000. The budget included a total of approximately $1.1 billion for New Education Initiatives. These initiatives include Reading Improvement, Teacher Quality, Accountability/Performance, California Community Colleges, School Safety, Instructional Quality, Funding Equity and Accountability, and Preschool and Child Care.

(f) ***2000-2001 Fiscal Year Proposed Budget***. On January 10, 2000, the Governor released his proposed $85 billion 2000-01 State budget. In K-12 education, the budget proposes $900 million for new initiatives aimed at student achievement, teacher recruitment, retention and training, and new technology. Almost two-thirds of this total counts toward Proposition 98 purposes and the remainder is from non-Proposition 98 Funds. The proposed Proposition 98 allocations to K-12 schools is projected at $35.8 billion in 2000-01, representing an increase of $1.9 billion, or 5.7% over the current year estimate. Per pupil spending under Proposition 98 increases by $268, or 4.4%. The budget proposes Proposition 98 spending that exceeds the estimated minimum funding guarantee by $257 million. Uses of the additional Proposition 98 Funds include a 2.84% COLA for district and county office apportionments and categorical programs as well as general purpose funding related to the projected growth in the student population. The Governor's revised May 2000 budget reflected this increased support in funding of the State's educational programs. On June 30, 2000, Governor Gray Davis signed the Fiscal Year 2000-01 budget legislation for the State which provides for an all-time record spending for the State's K-12 schools of $32.35 billion or 32.49% of the State's budget for Fiscal Year 2000-01. In addition, the State budget allocates an additional $10.9 billion to institutions of higher learning in the State resulting in a commitment of approximately 43.5% of the State's budget being allocated to education. The amount allocated by the 2000-01 State budget for K-12 school education represents a $4.2 billion increase (a 15.0% increase) over Fiscal Year 1999-2000 State spending on K-12 education. The State budget also allocates $1.8 billion in discretionary funds for the State's school districts, including $425.0 million earmarked for such programs as school safety, deferred maintenance and technology-related programs, $118.0 million for $1,000 scholarships to 9th, 10th and 11th graders scoring in the top 10% of their schools or in the top 5% on statewide standardized tests and provides for various incentives for the hiring of additional teachers, including an increase in beginning teacher salaries to $34,000.

(g) ***Future Budgets***. The Districts cannot predict what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. The State budget process will continue to be affected each year by national and state economic conditions and other factors, such as stabilization of the economies of various Asian countries.

Combined Revenue Sources - Summary

The Districts essentially categorize their General Fund revenues into four sources: (1) revenue limit sources (consisting of a mix of State and local revenues), (2) federal revenues, (3) other State revenues and (4) other local revenues. Each of these revenue sources is described below.

Revenue Limit Sources. Since Fiscal Year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the ADA (average daily attendance) for such district by (2) a base revenue limit per unit of ADA. The 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 California school districts of the same type.

Funding of the Districts' revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments will amount to the difference between the Districts' revenue limit and their local property tax revenues.

Beginning in 1978-79, Proposition 13 and its implementing legislation provided for each county to levy (except for levies to support prior voter-approved indebtedness) and collect all property taxes, and prescribed how levies on county-wide property values are to be shared with local taxing entities within each county.

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and the property taxes on which a lien on real property are sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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 on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent is declared to be tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county treasurer.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing 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 lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county clerk and county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the assessee.

Federal Revenues. The federal government provides funding for several programs of the Districts, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools and Education for Economic Security. The federal revenues, most of which are restricted, comprised approximately 4.55% of General Fund revenues in 1998-99 and are budgeted to equal approximately 3.92% of General Fund revenues in 1999-2000.

Other State Revenues. As discussed above, the Districts receive State apportionment of basic and equalization aid in an amount equal to the difference between the revenue limit of the Districts and their property tax revenues. In addition to such apportionment revenue, the Districts receive substantial other State revenues.

These other State revenues are primarily restricted revenue funding items such as the Special Education Master Plan, Economic Impact Aid, home-to-school transportation, instructional materials and mentor teachers. The other State revenues comprised approximately 19.55% of General Fund revenues in 1998-99 and are budgeted to equal approximately 21.76% of such revenues in 1999-2000.

The Districts receive State aid from the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election and which is accounted for in other State revenues. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction or the financing of research. Lottery revenues comprised approximately 2.09% of General Fund revenues in 1998-99 and are budgeted to equal approximately 2.00% of such revenues in 1999-2000.

Budget Process

The Districts are required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by A.B. 1200, which became law on October 14, 1991. Portions of A.B. 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. The Districts are on a dual budget cycle and the budget for the Districts is adopted on or before September 1.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Trustees and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15 the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the school district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budgets have been disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the district must revise and readopt its budget by September 1, reflecting changes in projected income and expense since July 1, including responses to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8 will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code § 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

The Districts have never had an adopted budget disapproved by the County Superintendent of Schools, and has never received a "qualified" or "negative" certification of an Interim Financial Report from the County Superintendent pursuant to A.B. 1200.

SANTA CRUZ CITY SCHOOLS AND SANTA CRUZ ELEMENTARY SCHOOL DISTRICT

Generally

The Santa Cruz City Schools are comprised of the District and the High School District. The District and the High School District are governed by a common Board. The District draws its students solely from within the City of Santa Cruz, encompassing some 12 square miles. The High School District includes much of the northern portion of Santa Cruz County, encompassing approximately 155 square miles and draws its student population from the communities of Davenport, Bonny Doon, Scotts Valley, Santa Cruz, Live Oak, Soquel and Capitola.

The District was established in 1857, is located in and encompasses the City of Santa Cruz, and is located approximately 60 miles south of San Francisco. The District currently operates seven elementary schools (K-6) serving an estimated 3,094 students. The District's projected average daily attendance for fiscal year 1999-2000 is 2914 and the District had a 1999-2000 assessed valuation of $3,918,109,587, with an adjusted assessed valuation (i.e., the assessed valuation as adjusted by redevelopment incremental valuation) of $3,376,046,697 after giving effect to the redevelopment incremental valuation of $542,062,890. See **"Table 15-SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT - Statement of Direct and Overlapping Debt"** herein.

The Board of Education

The Districts are governed by a single, seven-member Board of Education. The Board has governance responsibilities over all activities related to public K-12 education within the jurisdiction of the Districts. The Board receives funding from local, State and federal government sources and must comply with the concomitant requirements of these funding sources. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and exercise over both the District and the High School District the decision making authority, the power to designate management, the responsibility to significantly influence operations and the primary accountability for fiscal matters.

Each member of the Board of Education is elected to a four-year term of office. Elections for positions to the Board are held every two years, alternating between three and four available positions. Current members of the Board, together with their office, the date their term expires and their current occupation, are shown as follows:

Table 3

Name	Office	Term Expires	Occupation
Joe Hall	President	2000	Assistant Director, City Redevelopment Agency
Barbara Thompson	Vice President	2002	Travel Agent
Judy Cook	Member	2002	Environmental Consultant
Matt Farrell	Member	2000	City Parking Program Manager
Felix Robles	Member	2000	Community College Professor
Mick Routh	Member	2002	Retired School Administrator
Tim Willis	Member	2002	High School Teacher

Source: Santa Cruz City Schools

Superintendent and Key Administrative Personnel

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators. Information concerning the Superintendent and the other key administrative personnel of the District is set forth below.

Table 4

Administrative Personnel	Position	Number of Years in Position	Number of Years with District	Number of Years in Educational Management
Roy G. Nelson	Superintendent	5	29	19
Richard C. Moss	Assistant Superintendent Business Services	1	1	20
Marie Ishida	Assistant Superintendent Human Resources	5	11	20
Don Iglesias	Assistant Superintendent Instruction	5	20	21
Currently Vacant	Director/Finance Information Systems			

Source: Santa Cruz City Schools

Student Enrollment

School enrollment in public school districts in California determines, to a major extent, what the school district will receive from the State for the funding of its programs, facilities and staff needs. The District's total ADA (average daily attendance) for the 1998-99 academic year was 2914. The total ADA for the 1999-2000 academic year is projected to be 2839.

District enrollment has slightly declined over the past ten years, with a 6.3% decline occurring between the 1995-96 academic year and the 1997-98 academic year. However, District enrollment is now projected to continue to decline slightly over the next several years which will likely also result in a reduction in the amount of State revenue support for the District. The following table reflects the total ADA for the District for the last five years, and an estimated actual for 1999-2000:

Table 5

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
Average Daily Attendance

Academic Year	Average Daily Attendance
1995-1996	3,317
1996-1997	3,236
1999-1998	3,110
1998-1999	2,914
1999-2000 (Estimated Actual)	2,937

Source: Santa Cruz City Schools

Employee Relations

The following table sets forth the number of personnel projected to be employed by the Districts in various categories during the 1999-2000 school year. Some employees are hired under federal and State funded programs. The following table is not a complete listing of all employees of the District and the High School District.

Table 6

SANTA CRUZ CITY SCHOOLS
Personnel Classification

Employee Classification	Projected Employees
Management	38
Teachers	428
Counselors	14
Psychologists	7
Nurses	3
Secretary/Clerical	53
Maintenance/Operations	68
Food Service	33
Teacher Aides	120
Librarians	11
Personnel	6
Warehouse	2

Source: Santa Cruz City Schools

The employees of the Districts, except administrative and some part-time employees, are represented by the following bargaining units:

Table 7

SANTA CRUZ CITY SCHOOLS
Employee Bargaining Units

Name of Organization	Number of Employees In Organization	Current Contract Expiration Date
SCCCE	361	Negotiations Pending
GSCFT	495	Negotiations Pending

Source: Santa Cruz City Schools

Pension Programs

Qualified employees of the Districts are covered under multiple-employer defined benefit pension plans maintained by agencies of the State. Certificated employees may be members of the State Teachers' Retirement System ("STRS"), and classified employees may be members of the Public Employees' Retirement System ("PERS").

All regular and the majority of substitute certificated employees participate in STRS, a cost-sharing multiple-employer contributory public employee retirement system. As of June 30, 2000, the Districts employed 971 certificated employees with a total estimated actual payroll subject to STRS of $24,904,690.

All full-time classified employees are eligible to participate in PERS, an agent multiple-employer contributory public employee retirement system, which acts as a common investment and administrative agent for participating public entities within the State. As of June 30, 2000, the Districts employed 800 classified employees with a total estimated actual payroll subject to PERS of $8,173,498.

Contribution rates to these two retirement systems vary annually depending on changes in actuarial assumptions and other factors, such as changes in benefits. The contribution rates are based on statewide rates set by the STRS and PERS retirement boards. STRS has a significant statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the share allocable to the Districts.

Accounting Practices

The accounting practices of the Districts 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.

The expenditures of the Districts 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, but are offset by the

State revenue limit. 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 Districts updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The Districts' 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 not requiring a special type of fund. The Districts' Fiscal Year begins on July 1 and ends on June 30.

General and Governmental Funds Budget

The Districts are 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 California State Department of Education imposes a uniform budgeting format for school districts.

Under current law, the Board of Education of Santa Cruz City Schools approves a final budget by July 1 of each Fiscal Year. After approval of the final budget, the Districts' administration may submit budget revisions for the approval of the Board of Education as needed.

Fiscal Year 1998-99 Financial Summary

The following table sets forth the Districts' audited results for Fiscal Years 1998-99 for its Combined Statement of Revenues, Expenditures and Changes in Fund Balances for all of the Districts' governmental fund types and Expendable Trust Funds. The District's audited financial statements for Fiscal Year 1999-2000 is not yet available.

Table 8

SANTA CRUZ CITY SCHOOLS
Elementary and High School Districts
All Fund Types
Revenues, Expenditures and Fund Balances
Fiscal Year 1998-99

	Fiscal Year 1999 Governmental Fund Types				Fiduciary Fund Types	Total Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	1999
REVENUES						
Revenue Limit Sources:						
State Apportionments	$11,919,964	$1,322,747				$13,242,711
Local Sources	23,865,648					23,865,648
Total Revenue Limit Sources	$35,785,612	$1,322,747				$37,108,359
Federal Revenues	2,303,899	650,980				2,954,879
Other State Revenues	9,892,041	266,174	$ 34,783			10,192,998
Other Local Revenues	2,556,123	1,419,369	2,124,449	$ 1,918,124	$1,388,416	9,406,481
Tuition and Transfers	49,205					49,205
Total Revenues	$50,586,880	$3,659,270	$2,159,232	$ 1,918,124	$1,388,416	$59,711,922
EXPENDITURES						
Current Expenditures						
Certificated Salaries	$23,810,744	$ 954,306				$24,765,050
Classified Salaries	6,629,735	757,794		$ 74,323		7,461,853
Employee Benefits	9,952,534	505,612		21,044		10,479,190
Books and Supplies	2,014,931	815,977				2,830,908
Services and Operating Expenditures	5,170,062	401,952		259,353	$ 115,337	5,946,704
Other Outgo	691,668	163,688		9,794		865,150
Capital Outlay	833,644	280,170	$ 190,598	1,443,540		2,747,952
Debt Service-Interest and Other	114,358		1,453,144	8,250		1,575,752
Total Expenditures	$49,217,676	$3,879,499	$1,643,742	$ 1,816,305	$ 115,337	$56,672,559
Excess of Revenue Over/ (Under) Expenditures	$ 1,369,204	$ (220,229)	$ 515,490	$ 101,819	$1,273,079	$ 3,039,363
OTHER FINANCING SOURCES (USES)						
Operating Transfers In		$ 599,186	$ 719,133	$ 40,000		$ 1,358,319
Operating Transfers Out	$ (842,796)		(515,516)	(7)		(1,358,319)
Other Sources	122,719		693,971	21,634,000		22,450,690
Total Other Financing Sources (Uses)	$ (720,077)	$ 599,186	$ 897,588	$21,673,993		$22,450,690
Excess of Revenues and Other Sources Over/(Under) Expenditures and Other Uses	$ 649,127	$ 378,957	$ 1,413,078	$21,775,812	$1,273,079	$25,490,053
Fund Balance - Beginning of Year (July 1)	5,278,937	2,025,833	504,974	2,416,053	1,434,336	11,660,133
Fund Balance - End of Year (June 30)	$5,928,064	$2,404,790	$1,918,052	$24,191,865	$2,707,415	$37,150,186

Source: Santa Cruz City Schools, Financial Statements with Independent Auditor's Report, June 30, 1999.

Comparative Financial Summaries

The following table reflects the Districts' combined revenues, expenditures and fund balances for all governmental fund types and expendable trust funds for each of the Fiscal Years ended June 30, 1997, 1998 and 1999 and for the current Budget Year ending June 30, 2000:

Table 9

SANTA CRUZ CITY SCHOOLS
Elementary and High School Districts
All Fund Types
Revenues, Expenditures and Fund Balances
1997-98 Through 2000-2001

	Actual 1997-98[1]	Actual 1998-99[1]	Estimated Actual 1999-2000[2]	Budgeted 2000-2001
REVENUES:				
Revenue Limit Sources				
State Apportionments	$12,073,090	$13,242,711	$11,952,248	$15,267,841
Local Sources	11,744,914	23,865,648	24,944,636	24,944,636
Total Revenue Limit	34,055,551	37,108,359	36,896,884	40,212,477
Federal Revenues	1,374,623	2,954,879	2,629,197	2,305,063
Other State Revenues	7,195,304	10,192,998	8,692,761	6,699,617
Other Local Revenues	590,632	9,406,481	7,925,082	5,917,575
Tuition and Transfers	---	49,205	---	---
Total Revenues	$43,216,110	$59,711,922	$56,143,925	55,134,732
EXPENDITURES:				
Current Expenditures				
Certificated Salaries	$21,503,736	$24,765,050	$24,904,689	$24,897,178
Classified Salaries	6,350,282	7,461,853	8,173,498	7,655,295
Employee Benefits	8,118,592	10,479,190	10,520,236	10,193,013
Books and Supplies	1,318,988	2,830,908	3,794,625	2,767,151
Services and Other Operating Expenditures	3,322,894	5,946,704	5,832,480	4,582,695
Other Outgo	722,816	865,150	2,638,225	2,692,124
Direct/Indirect Costs			(108,280)	(173,278)
Capital Outlay	369,572	2,747,952	1,753,090	609,093
Debt Service	--	1,575,752	---	---
Total Expenditures	$41,533,716	$56,672,559	$57,508,566[3]	$53,223,272
EXCESS OF REVENUES OVER/(UNDER) EXPENDITURES	$ 1,682,394	$ 3,039,363	($1,364,640)[3]	$ 1,911,459
OTHER FINANCING SOURCES/(USES)				
Operating Transfers In	---	$ 1,358,319	$ ---	$ ---
Operating Transfers Out	(479,907)	(1,358,319)	594,474	561,632
Other Sources	---	$22,450,690	99,500	---
Other Uses	(583,000)	---	615,798	611,914
Total Other Financing Sources/(Uses)	$1,062,907	$22,450,690	($1,110,772)	($1,173,546)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	$ 619,487	$25,490,053	($2,475,413)	$ 737,913
FUND BALANCE, BEGINNING OF YEAR	8,448,048	11,660,133	5,933,976	3,458,563
FUND BALANCE, END OF YEAR	$9,067,535	$37,150,186	$ 3,458,563	$ 4,196,476

(1) Respective Audited Financial Reports for Fiscal Years indicated.
(2) Santa Cruz City Schools, Adopted Budget for Fiscal Year 1999-2000
(3) These amounts include amounts for capital projects which are being funded and paid from proceeds of general obligation bonds previously issued for the Districts.

Current Financial Status

The State monitors the financial position of school districts via an interim report which school districts are required to file with their respective county offices of education. School districts are required to file two interim reports each year by no later than December 31 and March 31. The county offices of education must then, within 30 days, evaluate the interim reports and forward their comments to the California Department of Education and the State Controller's Office. As of their First 1999 Interim Report filing, the Districts submitted a Positive Certification with respect to their ability to meet their financial obligations for the remainder of the Fiscal Year if certain events occur and, likewise, submitted a Positive Certification for their Second Interim Report which was due March 31, 2000.

Administrative staff for the Districts have reported that there will be a decline in both student enrollment and combined revenues as the result of formation of a new Scotts Valley School District which incorporates an area previously located within the High School District. Administrative staff have advised that in order to maintain State law mandated reserves and balanced budgets in the current and future Fiscal Years, budget adjustments will be required reflecting lower revenues as a result of this decline in enrollment.

Financial Statements and General Long-Term Obligations

Financial Statements. The Districts' General Fund finances the legally authorized activities of the Districts for which separate funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, various sources of money and property and aid from various other governmental agencies. The most recent audited financial statements for the Districts for the Fiscal Year ended June 30, 1999 and all prior Fiscal Years are on file with the Districts and available for public inspection by contacting the Districts' Assistant Superintendent, Business Services, Richard Moss, 2931 Mission Street, Santa Cruz, California 95060, telephone 831-429-3822, during normal business hours or by contacting the Districts' Financial Advisor. Copies of such financial statements may be mailed to prospective investors and/or their representatives upon request directed to the Districts or their Financial Advisor. The Districts have never defaulted on the payment of principal of or interest on any of their indebtedness.

Post Employment Health Benefits. The Districts provide post-employment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service. As of the end of Fiscal Year 1998-99, there were 70 employees meeting those eligibility requirements. The Districts contribute 100% of the amount of premiums incurred by retirees and their dependents. Expenditures for post-employment benefits are recognized on a pay-as-you-go basis, as retirees premiums are paid. During the year ended June 30, 1999, expenditures of $95,203.60 were recognized for retirees' health care benefits. According to the Districts' audited financial report for the year ended June 30, 1999, the estimated accumulated future liability for the Districts' post-employment health care benefits program was $2,083,153.

Lease Obligations. On August 25, 1998, the Districts executed and delivered lease certificates of participation in the amount of $6,720,000, at interest rates ranging from 4.30% to 5.00% for the purpose of refinancing certain outstanding lease certificates of participation obligations previously incurred by the Districts to finance various capital improvements for the Districts. As of September 1, 2000, the principal of the certificates outstanding was $6,585,000. The certificates mature through May 1, 2024, as summarized in the following table:

Table 10

SANTA CRUZ CITY SCHOOLS
LEASE CERTIFICATES OF PARTICIPATION

Year Ending June 30	Principal Components	Interest Components	Total Payments
2001	$ 155,000	$ 312,950	$ 467,950
2002	160,000	306,285	466,285
Thereafter	6,270,000	4,101,007	10,371,007
TOTAL	$6,585,000	$4,720,242	$11,305,242

Source: Santa Cruz City Schools

The Districts also have incurred liability with respect to certain capital leases with options to purchase. The minimum lease payments with respect to these capital leases are shown in the following table:

Table 11

SANTA CRUZ CITY SCHOOLS
CAPITAL LEASES

Year Ending June 30	Lease Payment
2001	$120,206
2002	34,761
2003	34,761
Total	$189,728
Less: Amount Representing Interest	(17,550)
Present Value of Minimum Lease Payments	$172,178

Source: Santa Cruz City Schools

General Obligation and Special Tax Bonds. As of September 1, 2000, the District had $22,275,000 in principal amount of general obligation bonds outstanding, consisting of the Series A General Obligation Bonds and the Series B General Obligation Bonds of the District, and the High School District had $45,520,000 in principal amount of general obligation bonds outstanding, consisting of two series of bonds. Neither of the Districts has any special tax bonds outstanding.

Property Taxation

Ad Valorem Property Taxation - Levies, Collections Procedures and Delinquencies. As described herein, the Districts utilize the services of the County for the assessment and collection of taxes (including community facilities district special taxes) for the Districts' purposes, except for public utility property which is assessed by the State Board of Equalization. For a description of how properties are presently assessed see **"CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES, FINANCES AND APPROPRIATIONS."** The State Constitution and sections of various State statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions. State law also allows exemptions from *ad valorem* property taxation equal to $7,000 of full value of owner occupied dwellings and 100% of business inventories.

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property secured by a lien on real property which is sufficient, in the opinion of the Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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 on December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default and has a delinquency certificate recorded on or after June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is declared to be subject to the County Tax Collector's power of sale and may be subsequently sold within two years by the County Tax Collector.

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

General Tax Levies and Collections. Beginning in 1978-79, Article XIIIA and its implementing legislation shifted the function of property taxation primarily to the counties in California, except for levies to support prior-voted debt, and prescribed how levies on County-wide property values are to be shared with local taxing entities within each County.

Santa Cruz County utilizes the Teeter Plan for tax levy, collection and distribution, pursuant to Sections 4701 through 4717 of the State's Revenue and Taxation Code. This alternative method of distribution of tax levies and collections guarantees distribution of 100% of the taxes levied to the taxing entities within the County, with the County retaining all penalties and interest upon delinquencies and redemptions of subsequent collections. Under the Teeter Plan, distribution of tax revenues to each of the entities levying taxes within the County are made at the time that secured tax bills are mailed to property owners by the County Tax Collector, which is approximately November 1 of each year.

Each of the Districts' total secured tax levy consists of its respective share of general *ad valorem* and unitary taxes, assessed on a County-wide basis. Since State law allows a home owner's exemption (commonly known as the "home owner's exemption") from *ad valorem* property taxation, the home owner's exemption is not included in the total secured tax levy. In addition, the total secured tax levy of the Districts does not include special assessments, improvement bonds, supplemental taxes or other charges which have been assessed on property within the Districts or other tax rate areas of the County.

The Districts' total secured tax collections and delinquencies are apportioned on a County-wide basis, according to the Districts' designated tax rate amount. Therefore, the total secured tax levies, as well as collections and delinquencies reported above, do not represent the actual secured tax levies, collections and delinquencies of taxpayers within the tax rate areas of each of the Districts.

Table 12

SECURED TAX LEVIES AND DELINQUENCIES
COUNTY OF SANTA CRUZ

Fiscal Year	Secured Tax Charge (1)	Amt. Del. June 30	% Del. June 30
1989-90	$ 117,611,681	$ 5,592,468	4.76%
1990-91	126,743,331	4,567,063	3.60
1991-92	141,792,497	5,930,966	4.18
1992-93	151,711,743	7,963,566	5.25
1993-94	161,848,488	7,186,092	4.44
1994-95	169,495,492	6,202,505	3.66
1995-96	176,082,502	5,991,827	3.40
1996-97	181,855,338	5,616,978	3.08
1997-98	187,444,233	4,652,501	2.48
1998-99	199,354,385	4,711,368	2.36

(1) All taxes are collected by Santa Cruz County
Source: California Municipal Statistics, Inc.

Assessed Valuations

All property within Santa Cruz County (including all property within the Districts) is assessed using full cash value as defined by Article XIIIA of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals and charitable institutions.

Future assessed valuation growth allowed under Article XIIIA (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

As described above, for tax assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the "unsecured roll."

The passage of AB 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a State-mandated local program by requiring the assignment of the assessed value of all unitary and operating nonunitary property in each county of each State assessee other than a regulated railway company. The legislation established formulas for the computation of applicable countrywide tax rates for such property and for the allocation of property tax revenues attributable to such property among taxing jurisdictions in the county beginning in Fiscal Year 1988-89. This legislation requires each county to issue each State assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

The following represents the eight-year history of assessed valuations in the District:

Table 13

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
Assessed Valuations (in thousands)
(Before Redevelopment Adjustments)

	Secured	Utility	Unsecured	Total
1992-1993	$2,705,205,110	$4,056,651	$151,268,767	$2,860,530,528
1993-1994	2,835,957,161	3,060,391	156,217,348	2,995,234,900
1994-1995	2,938,968,417	5,281,302	158,645,442	3,102,895,161
1995-1996	2,998,865,160	4,569,144	166,087,312	3,169,521,616
1996-1997	3,147,062,529	4,565,832	156,004,138	3,307,632,499
1997-1998[1]	3,277,998,187	4,634,298	157,014,567	3,439,647,052
1998-1999	3,437,172,035	1,954,821	168,979,588	3,608,106,444
1999-2000	3,736,073,130	1,797,131	180,239,326	3,918,109,587

(1) Reflects implementation of AB 454.
Sources: California Municipal Statistics, Inc.

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 *ad valorem* property tax revenues.

The County is responsible for determining the amount of the *ad valorem* tax levy on each parcel in the County, 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 moneys 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 moneys 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 moneys are distributed to the apportioned tax resources accounts.

The Tax Loss Reserve Fund is used exclusively to cover losses occurring in the amount of tax liens as a result of sales of tax-defaulted property. Moneys in this fund are derived from several sources. While amounts collected as costs are distributed to the County's General Fund, delinquent penalty corrections are distributed to the Tax Loss Reserve Fund.

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 (non-Teeter) levies. The pro rata share for apportioned levies is distributed to the Tax Loss 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 Loss Reserve Fund exceeds 3% of the total taxes and assessments levied on the secured roll for that year, the amount of tax revenues received after the Tax Loss Reserve Fund reaches 3% is 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 Loss 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 the Teeter Plan 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 total amount of *ad valorem* tax revenues which the Districts would be entitled to receive would directly depend upon actual collections of *ad valorem* property taxes and delinquency rates experienced with respect to the taxed parcels within the Districts.

So long as the Teeter Plan remains in effect, the Board'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 Districts if the delinquency rate for all *ad valorem* property taxes levied within the Districts in any year exceeds 3%.

Principal Taxpayers

The following table lists the major taxpayers in the District according to their respective 1999-00 secured assessed valuations.

Table 14

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
Largest 1999-00 Local Secured Taxpayers

	Property Owner	Primary Land Use	1999-00 Assessed Valuation	% of Total (1)
1.	Silicon Systems Inc.	Research & Development	$133,167,473	3.56%
2.	Santa Cruz Seaside Co.	Recreational	45,632,086	1.22
3.	Santa Cruz Hotel LLC	Hotel	21,516,793	0.58
4.	Paradise Park Masonic Club Inc.	Recreational/Single Family Properties	21,486,623	0.58
5.	Thomas J. Lipton Inc.	Commercial	20,557,175	0.55
6.	Fremont Central Investments	Apartments	15,300,000	0.41
7.	Scholz Management LLC	Apartments	14,255,115	0.38
8.	Price Company	Commercial	14,029,696	0.38
9.	Encinal Partnership No. 1	Manufacturing	13,776,548	0.37
10.	Wave Crest Development Inc.	Office Building/Vacant/Industrial	12,910,341	0.35
11.	Green Valley Corp./Green Valley-Ross Partnership	Commercial	12,784,463	0.34
12.	Frederick Electronics Corporation	Manufacturing	12,435,290	0.33
13.	Pacific Square Limited Partnership	Commercial	12,387,644	0.33
14.	1200 Pacific LLC	Commercial	11,925,350	0.32
15.	Gateway Plaza Associates LLC	Shopping Center	10,597,871	0.28
16.	Ottaway Newspapers Inc.	Commercial	9,200,373	0.25
17.	Sequoia Equities III LLC	Apartments	9,048,316	0.24
18.	Romel Enterprises LLC	Apartments	8,724,742	0.23
19.	Starland Vistas Inc.	Mobile Home Park	8,681,469	0.23
20.	Health Care Property Investors Inc.	Retirement Home	8,523,424	0.23
			$416,940,792	11.16%

(1) 1999-00 Local Secured Assessed Valuation: $3,736,073,130
Source: California Municipal Statistics, Inc.

Statement of Direct and Overlapping Debt

Included within the District's boundaries are numerous overlapping local agencies providing public services. These local agencies may have outstanding bonds issued in the form of general obligation, lease revenue, special assessment and special tax bonds and lease certificates of participation. The assessed valuation estimated in the statement below may understate the actual market value of property within the District since Article XIIIA of the California Constitution limits any increase in assessed value to no more than 2 percent per year unless property is sold or transferred. As a consequence, assessed values are typically less than the actual market values unless improvements to property have either recently been constructed or there has been a change in ownership.

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and dated October 1, 2000. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by the District, as well as other public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District or such other agencies (except as otherwise indicated) nor are they necessarily obligations secured by land within the District. In certain cases, long-term obligations (such as lease certificates of participation) issued by a public agency are payable only from the General Fund or other revenues of such public agency.

Table 15

SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT
Statement of Direct and Overlapping Debt

1999-00 Assessed Valuation:	$3,918,109,587
Redevelopment Incremental Valuation:	542,062,890
Adjusted Assessed Valuation:	$3,376,046,697

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 10/1/00
Cabrillo Joint Community College District	21.356%	$ 8,444,162
Santa Cruz City High School District	54.921	25,000,039[1]
Santa Cruz School District	100.	22,275,000[1]
City of Santa Cruz	99.230	6,934,662
City of Santa Cruz 1915 Act Bonds	100.	2,350,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$65,003,863
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Santa Cruz County Certificates of Participation	21.659%	$10,085,335
Cabrillo Joint Community College District Certificates of Participation	21.356	736,782
Santa Cruz City Schools Certificates of Participation	54.921	3,616,548
City of Santa Cruz General Fund Obligations	99.230	16,038,290
City of Santa Cruz Port District Certificates of Participation	72.021	108,047
San Lorenzo Valley Water District General Fund Obligations	0.036	93
Monterey Bay Unified Air Pollution Control District Authority	8.098	364,005
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		$30,949,100
COMBINED TOTAL DEBT		$95,952,963[2]

(1) Excludes bond anticipation notes.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 1999-00 Assessed Valuation:
Direct Debt ($22,275,000) 0.57%
Total Direct and Overlapping Tax and Assessment Debt 1.66%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($25,891,548) 0.77%
Combined Total Debt 2.84%

Source: California Municipal Statistics, Inc.

GENERAL ECONOMY OF COUNTY AND DISTRICTS

General Information

Santa Cruz County is located in central California and covers 439 square miles, with approximately two-thirds of the County being forest land owned by the United States Department of Agriculture. The County's boundaries are chiefly natural ones -- the Santa Cruz Mountains to the east, the Pajaro River on the south, and to the west, Monterey Bay and the Pacific Ocean. The northern border with San Mateo County is mountainous and wooded.

Santa Cruz County is an important vacation and recreation area. Six State parks and numerous beaches are located within the boundaries of the County. The City of Santa Cruz, the largest city and the county seat, features attractive beaches and a boardwalk. The mid-county section which consists of the City of Capitola and the unincorporated areas of Soquel and Aptos, provide numerous attractions for both tourists and local residents, including four major shopping centers and two State beaches. The southern part of the County, part of the Pajaro Valley, is a productive agricultural district. Industries like food canning and freezing, which are closely tied to farming, are located in or near Watsonville, the major community in the region. The activities which are not directly based on agriculture or tourism, such as electronic-related manufacturing, computer services, and educational services provided by a university, a community college, and a private college, are scattered throughout the county.

Population

The population of Santa Cruz County is estimated at 255,000 as of January 1, 2000 according to the California Department of Finance estimates. This total represents an increase of approximately 4.7% percent since 1996.

Table 16

POPULATION (CITIES AND UNINCORPORATED AREAS) SANTA CRUZ COUNTY(1)

Area	1996	1997	1998	1999	2000
Total County (1)	242,500	245,400	249,000	252,100	255,000
Total Unincorporated	135,400	134,800	136,200	137,300	138,800
Total Incorporated Areas	107,175	110,600	112,000	114,750	116,150
Capitola	10,850	11,000	11,100	11,100	11,200
Santa Cruz	52,700	53,100	54,300	55,600	56,000
Scotts Valley	9,825	10,050	10,500	10,650	10,850
Watsonville	33,850	36,600	37,000	37,400	38,100

(1) Totals may not equal sum indicated due to independent rounding.
Source: State of California, Department of Finance

Employment

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

Table 17

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT[1]
COUNTY OF SANTA CRUZ

Annual Average	1995	1996	1997	1998	1999
Civilian Labor Force	139,800	140,200	143,900	145,900	140,900
Employment	126,700	128,600	132,900	135,200	132,000
Unemployment	13,100	11,600	11,000	10,700	8,800
Unemployment Rate	9.3%	9.3%	7.6%	7.3%	6.3%
Statewide Unemployment Rate	7.85	7.2%	6.3%	5.90%	5.2%

(1) March 1999 Benchmark.
Source: State of California, Employment Development Department

Industry

Total wage and salary employment positions in Santa Cruz County grew by approximately 6.50% to 104,100 during the period from 1995 to 1999. During this same period, services employment increased by approximately 13.15% or 6,900 jobs. The services sector is the largest industry in the County, accounting for approximately 63.6% of total wage and salaried employment.

Table 18

WAGE AND SALARY EMPLOYMENT INFORMATION, BY INDUSTRY[1]
SANTA CRUZ COUNTY

Type of Employment	1995	1996	1997	1998	1999
Total, All Industries	97,700	99,200	101,600	103,000	104,100
Agriculture	11,700	11,700	11,200	11,000	9,500
Non-Agriculture	86,000	87,500	90,400	92,000	94,700
Goods Producing					
Construction & Mining	3,200	3,500	3,800	4,100	4,700
Manufacturing	12,800	12,700	12,200	11,500	10,900
Service Producing					
Transportation & Public Utilities	2,500	2,800	3,000	3,100	3,000
Wholesale Trade	4,700	4,500	4,900	4,500	4,700
Retail Trade	18,800	19,100	19,700	20,200	20,900
Finance, Insurance & Real Estate	3,100	3,000	3,300	3,500	3,600
Other Services	24,200	24,900	25,900	27,200	28,000
Government					
Federal Government	600	500	500	500	500
State & Local Government	16,100	16,400	17,100	17,400	18,300

(1) March 1999 Benchmark
Source: State of California, Employment Development Department

Agricultural Products

The following table shows the value of various agricultural products produced within Santa Cruz County during the period from 1994 through 1998.

Table 19

GROSS VALUE OF AGRICULTURAL PRODUCTION
SANTA CRUZ COUNTY

Agricultural Product	1994	1995	1996	1997	1998
Berry Crops	$120,149,000	$108,340,000	$108,651,000	$122,200,000	$100,100,000
Tree and Vine Crops	9,001,000	11,447,000	12,226,000	19,200,000	10,000,000
Vegetable Crops	58,746,000	60,567,000	57,128,000	61,900,000	52,500,000
Field Crops	100,000	135,000	170,000	190,000	170,000
Animal Industry	2,166,000	2,761,000	2,777,000	2,200,000	2,400,000
Nursery Crops	43,804,000	51,762,000	62,972,000	73,100,000	56,200,000
Total Agriculture	$233,965,000	$235,012,000	$243,924,000	$278,700,000	$221,800,000
Timber Farming	$ 12,570,000	$ 11,034,000	$ 11,508,000	$ 10,500,000	$ 8,900,000
Total	$246.535,000	$246,046,000	$255,432,000	$289,200,000	$230,800,000

Source: Santa Cruz County Department of Agriculture

Commercial Activity

Taxable sales in Santa Cruz County grew at a compounded annual rate of 3.46% during the years 1992-1996, as shown in the following table. Total taxable sales rose to $2.253 billion in 1997, an increase of 7.9% over 1996.

Table 20

TAXABLE SALES (in 000's)
SANTA CRUZ COUNTY

Category	1992	1993	1994	1995	1996
Apparel Stores	$ 59.669	$ 61.763	$ 61,108	$ 59,890	$ 63,685
General Merchandise	194,188	190,621	215,708	254,711	265,783
All Food Stores	149,861	125,350	123,334	121,295	127,261
Packaged Liquor Stores	29,951	26,030	23,117	25,065	25,721
Eating and Drinking Group	197,935	195,172	199,205	204,250	216,478
Home Furnishing and Appliances	39,495	40,211	40,801	39,153	43,260
Farm Implements and Supplies	23,169	26,324	28,736	30,631	26,914
Building Material Group	144,685	137,454	141,477	149,537	164,952
Auto Dealers and Supplies	223,220	167,060	175,989	192,544	210,976
Service Stations	106,925	114,167	103,669	107,881	121,678
Other Retail Outlets	121,115	191,433	184,520	207,733	226,970
Retail Stores Total	$1,290,213	$1,275,585	$1,297,644	$1,392,690	$1,493,678
Business and Personal Services	$ 82,306	$ 84,244	$ 90,004	$ 96,966	$ 108,491
All Other Outlets	388,331	379,074	393,275	439,047	485,561
Total all Outlets	$1,760,850	$1,738,903	$1,780,923	$1,928 703	$2,087,730

Source: State of California, Board of Equalization

LEGAL MATTERS

Tax Matters

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Notes 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 certain 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, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Notes 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 Notes.

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

Owners of the Notes should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Notes 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 Notes other than as expressly described above.

Legality for Investment in California

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

Continuing Disclosure

The District has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. "Continuing Disclosure Certificate" shall mean that certain Continuing Disclosure Certificate relating to disclosure of annual financial information and notices of certain events executed by the District as of the date of issuance and delivery of the Notes, as it may be amended from time to time in accordance with the terms thereof. See **"INTRODUCTION - Continuing Disclosure"** and **"APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE."**

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Notes. There is no action, suit or proceeding known by the District to be pending at the present time restraining or enjoining the delivery of the Notes, or in any way contesting or affecting the validity of the Notes or any proceedings of the District taken with respect to the issuance and delivery thereof. Furthermore, the District is not aware of any litigation pending or threatened questioning the existence of the District or the Board or contesting the ability of the District to be caused to be levied and collected or to receive *ad valorem* taxes for the payment of the Notes, or to collect or receive other revenues. A no litigation certificate to the effect and executed by the District will be delivered to the Underwriter simultaneously with the delivery of the Notes.

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

Legal Opinions

All proceedings in connection with the issuance and delivery of the Notes are subject to the approval as to their legality of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. The unqualified opinion of Bond Counsel approving the validity of the Notes will be printed on or accompany the delivery of each Note. Bond Counsel's employment is limited to a review of legal procedures required for the approval of the Notes and to rendering an opinion as to the validity of the Notes and as to the exemption of interest received on the Notes from income taxation. In that capacity, Bond Counsel reviewed this Official Statement for the purpose of ascertaining whether this Official Statement represents an accurate summary of the provisions of the Notes and the Authorizing Resolution. A copy of the proposed form of such Bond Counsel opinion is attached to this Official Statement as Appendix B.

Certain matters in connection with the offering and sale of the Notes will be passed upon for the District by Schuering Zimmerman & Scully, LLP, Sacramento, California, Disclosure Counsel.

MISCELLANEOUS

Rating

Standard & Poor's Rating Services, a Division of the McGraw-Hill Companies ("Standard & Poor's") has assigned its rating of "SP-1+" to the Notes. The rating assigned by Standard & Poor's reflects only the view of such agency and an explanation of the significance of the Standard & Poor's rating may be obtained only from Standard & Poor's at 55 Water Street, New York, New York 10041.

There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Standard & Poor's if, in the judgement of Standard & Poor's circumstances so warrant. Any such downward revision or withdrawal of the described rating may have an adverse effect on the market price of the Notes. Neither the District, the Financial Advisor nor the Underwriter has undertaken to assure maintenance of the rating or to oppose any such revision, suspension or withdrawal, or to bring to the attention of the Registered Owners of the Notes any proposed revision, suspension or withdrawal of the rating except to the extent that any revision, suspension or withdrawal is required to be reported as a "material event" to the Municipal Securities Rulemaking Board and a recognized State Repository (if then in existence).

Negotiated Sale

The Notes are being purchased by U.S. Bancorp Piper Jaffray (the "Underwriter") at a purchase price of $5,135,139.00 (which amount is equal to the principal amount of the Notes of $5,100,000 plus a premium of $35,139.00 and without accrued interest). The Purchase Agreement relating to the purchase of the Notes provides that all Notes will be purchased if any are purchased, with the obligation to make such purchase being subject to certain terms and conditions set forth in said Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial reoffering yield for the Notes is 3.75%.

Additional Information

The purpose of this Official Statement is to supply information to prospective bidders on, and buyers of, the Notes. Quotations from, references to and summaries and explanations of the Notes, the Authorizing Resolution providing for issuance of the Notes, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete or definitive, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of the contents thereof.

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

Certain data contained herein and relating to the District has been taken or constructed from District records. Appropriate District officials, acting in their official capacities, have reviewed this Official Statement and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. This Official Statement has been approved by the District, and the execution and delivery of this Official Statement has been duly authorized by the District.

SANTA CRUZ CITY SCHOOLS

By: /s/Richard C. Moss

Assistant Superintendent, Business Services

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APPENDIX A

SELECTED PORTIONS FROM THE SANTA CRUZ CITY SCHOOLS AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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Vavrinek, Trine, Day & Co., LLP

Certified Public Accountants

Members:
• American Institute of Certified Public Accountants
• SEC Practice Section
• California Society of Certified Public Accountants
• Western Association of Accounting Firms

INDEPENDENT AUDITORS' REPORT

Governing Board
Santa Cruz City Schools
Santa Cruz, California

We have audited the accompanying general-purpose and combining financial statements of the Santa Cruz City Schools, as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed by the State Controller. 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.

In common with other school districts, the District has not maintained a complete historical cost record of its general fixed assets and, accordingly, the financial statements do not include the general fixed assets group of accounts required by generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group relates to historical data that is not currently available.

In our opinion, except for the effect on the financial statements of the omission of the general fixed asset group of accounts, the general-purpose and combining financial statements referred to above present fairly, in all material respects, the financial position of the Santa Cruz City Schools at June 30, 1999, 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 our report dated November 19, 1999, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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Pleasanton
Laguna Hills
San Jose
Carmichael

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole and on the combining financial statements of Santa Cruz City Schools. The accompanying financial and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of Santa Cruz City Schools. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose and combining financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general-purpose and combining financial statements taken as a whole.

The year 2000 supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the District is or will become year 2000 compliant, that the District's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the District does business are or will become year 2000 compliant.

Vavrinek Trine Day + Co. LLP.

Rancho Cucamonga, California
November 19, 1999

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SANTA CRUZ CITY SCHOOLS

ALL FUND TYPES AND ACCOUNT GROUPS
COMBINED BALANCE SHEET
JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS				
Cash	$ 15,000	$ 639	$ 1	
Investments	6,277,694	2,454,593	1,967,737	$ 24,698,182
Accounts receivable	2,676,924	475,242		3,866
Due from other funds	835,896	461,006		2
Stores inventory	91,231	56,866		
Prepaid expenditures	644			
Amount available for the retirement of general long-term debt				
Amount to be provided for the retirement of general long-term debt				
Total Assets	$ 9,897,389	$ 3,448,346	$ 1,967,738	$ 24,702,050
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable	1,382,254	279,247	49,686	479,350
Due to other funds	1,242,595	753,573		30,835
Deferred revenue	1,344,476	10,736		
Due to student groups				
General long-term debt				
Total Liabilities	3,969,325	1,043,556	49,686	510,185
FUND EQUITY				
Fund balances				
Reserved	1,300,139	57,505		
Unreserved				
Designated	2,287,025	496,640		148,071
Undesignated	2,340,900	1,850,645	1,918,052	24,043,794
Total Fund Equity	5,928,064	2,404,790	1,918,052	24,191,865
Total Liabilities and Fund Equity	$ 9,897,389	$ 3,448,346	$ 1,967,738	$ 24,702,050

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Types: Trust and Agency	Account Group: General Long-Term Debt	Total (Memorandum Only)
$ 402,368		$ 418,008
1,943,766		37,341,972
64,400		3,220,432
816,402		2,113,306
		148,097
		644
	$ 3,213,929	3,213,929
	27,875,188	27,875,188
$ 3,226,936	$ 31,089,117	$ 74,331,576
30,850		2,221,387
86,303		2,113,306
		1,355,212
402,368		402,368
	31,089,117	31,089,117
519,521	31,089,117	37,181,390
		1,357,644
1,411,538		4,343,274
1,295,877		31,449,268
2,707,415		37,150,186
$ 3,226,936	$ 31,089,117	$ 74,331,576

SANTA CRUZ CITY SCHOOLS

ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES				
Revenue Limit Sources				
State apportionments	$ 11,919,964	$ 1,322,747		
Local sources	23,865,648			
Total Revenue Limit Sources	35,785,612	1,322,747		
Federal revenues	2,303,899	650,980		
Other state revenues	9,892,041	266,174	$ 34,783	
Other local revenues	2,556,123	1,419,369	2,124,449	$ 1,918,124
Tuition and transfers	49,205			
Total Revenues	50,586,880	3,659,270	2,159,232	1,918,124
EXPENDITURES				
Current Expenditures				
Certificated salaries	23,810,744	954,306		
Classified salaries	6,629,735	757,794		74,324
Employee benefits	9,952,534	505,612		21,044
Books and supplies	2,014,931	815,977		
Services and other operating expenditures	5,170,062	401,952		259,353
Other outgo	691,668	163,688		9,794
Capital outlay	833,644	280,170	190,598	1,443,540
Debt service - interest and other	114,358		1,453,144	8,250
Total Expenditures	49,217,676	3,879,499	1,643,742	1,816,305
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	1,369,204	(220,229)	515,490	101,819
OTHER FINANCING SOURCES/(USES)				
Operating transfers in		599,186	719,133	40,000
Operating transfers out	(842,796)		(515,516)	(7)
Other sources	122,719		693,971	21,634,000
Total Other Financing Sources/(Uses)	(720,077)	599,186	897,588	21,673,993
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	649,127	378,957	1,413,078	21,775,812
FUND BALANCE, BEGINNING OF YEAR	5,278,937	2,025,833	504,974	2,416,053
FUND BALANCE, END OF YEAR	$ 5,928,064	$ 2,404,790	$ 1,918,052	$ 24,191,865

The accompanying notes are an integral part of these financial statements.

Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
	$ 13,242,711
	23,865,648
	37,108,359
	2,954,879
	10,192,998
$ 1,388,416	9,406,481
	49,205
1,388,416	59,711,922
	24,765,050
	7,461,853
	10,479,190
	2,830,908
115,337	5,946,704
	865,150
	2,747,952
	1,575,752
115,337	56,672,559
1,273,079	3,039,363
	1,358,319
	(1,358,319)
	22,450,690
	22,450,690
1,273,079	25,490,053
1,434,336	11,660,133
$ 2,707,415	$ 37,150,186

SANTA CRUZ CITY SCHOOLS

ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1999

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources			
State apportionments	$ 11,826,941	$ 11,919,964	$ 93,023
Local sources	23,962,164	23,865,648	(96,516)
Total Revenue Limit Sources	35,789,105	35,785,612	(3,493)
Federal revenues	2,571,399	2,303,899	(267,500)
Other state revenues	10,295,723	9,892,041	(403,682)
Other local revenues	2,851,594	2,556,123	(295,471)
Tuition and transfers		49,205	49,205
Total Revenues	51,507,821	50,586,880	(920,941)
EXPENDITURES			
Current Expenditures			
Certificated salaries	23,566,684	23,810,744	(244,060)
Classified salaries	6,647,275	6,629,735	17,540
Employee benefits	10,566,226	9,952,534	613,692
Books and supplies	2,861,380	2,014,931	846,449
Services and operating expenditures	5,836,572	5,170,062	666,510
Other outgo	92,566	691,668	(599,102)
Capital outlay	1,065,178	833,644	231,534
Debt service - interest and other	317,969	114,358	203,611
Total Expenditures	50,953,851	49,217,676	1,736,175
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	553,970	1,369,204	815,234
OTHER FINANCING SOURCES/(USES)			
Operating transfers in			
Operating transfers out	(666,912)	(842,796)	(175,884)
Other sources	122,719	122,719	
Total Other Financing Sources/(Uses)	(544,193)	(720,077)	(175,884)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	9,777	649,127	639,350
FUND BALANCE, BEGINNING OF YEAR	5,278,937	5,278,937	
FUND BALANCE, END OF YEAR	$ 5,288,714	$ 5,928,064	$ 639,350

The accompanying notes are an integral part of these financial statements.

Special Revenue			Debt Service		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 1,303,841	$ 1,322,747	$ 18,906			
1,303,841	1,322,747	18,906			
630,146	650,980	20,834			
293,386	266,174	(27,212)		$ 34,783	$ 34,783
1,227,673	1,419,369	191,696		2,124,449	2,124,449
3,455,046	3,659,270	204,224		2,159,232	2,159,232
898,128	954,306	(56,178)			
838,223	757,794	80,429			
496,527	505,612	(9,085)			
935,649	815,977	119,672			
704,562	401,952	302,610			
159,599	163,688	(4,089)			
241,680	280,170	(38,490)		190,598	(190,598)
			$ 2,243	1,453,144	(1,450,901)
4,274,368	3,879,499	394,869	2,243	1,643,742	(1,641,499)
(819,322)	(220,229)	599,093	(2,243)	515,490	517,733
626,912	599,186	(27,726)		719,133	719,133
				(515,516)	(515,516)
				693,971	693,971
626,912	599,186	(27,726)		897,588	897,588
(192,410)	378,957	571,367	(2,243)	1,413,078	1,415,321
2,025,833	2,025,833		504,974	504,974	
$ 1,833,423	$ 2,404,790	$ 571,367	$ 502,731	$ 1,918,052	$ 1,415,321

SANTA CRUZ CITY SCHOOLS

ALL GOVERNMENTAL FUND TYPES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 1999

	Capital Projects		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources			
State apportionments			
Local sources			
Total Revenue Limit Sources			
Federal revenues	$ (8,435)		$ 8,435
Other state revenues			
Other local revenues	615,337	$ 1,918,124	1,302,787
Tuition and transfers			
Total Revenues	606,902	1,918,124	1,311,222
EXPENDITURES			
Current Expenditures			
Certificated salaries			
Classified salaries	5,421	74,324	(68,903)
Employee benefits	1,114	21,044	(19,930)
Books and supplies			
Services and operating expenditures	276,539	259,353	17,186
Other outgo	353	9,794	(9,441)
Capital outlay	80,493	1,443,540	(1,363,047)
Debt service - interest and other	8,750	8,250	500
Total Expenditures	372,670	1,816,305	(1,443,635)
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	234,232	101,819	(132,413)
OTHER FINANCING SOURCES/(USES)			
Operating transfers in	40,000	40,000	
Operating transfers out		(7)	(7)
Other sources		21,634,000	21,634,000
Total Other Financing Sources/(Uses)	40,000	21,673,993	21,633,993
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER USES	274,232	21,775,812	21,501,580
FUND BALANCE, BEGINNING OF YEAR	2,416,053	2,416,053	
FUND BALANCE, END OF YEAR	$ 2,690,285	$ 24,191,865	$ 21,501,580

The accompanying notes are an integral part of these financial statements.

Total		
Budget	Actual	Variance Favorable (Unfavorable)
$ 13,130,782	$ 13,242,711	$ 111,929
23,962,164	23,865,648	(96,516)
37,092,946	37,108,359	15,413
3,193,110	2,954,879	(238,231)
10,589,109	10,192,998	(396,111)
4,694,604	8,018,065	3,323,461
	49,205	49,205
55,569,769	58,323,506	2,753,737
24,464,812	24,765,050	(300,238)
7,490,919	7,461,853	29,066
11,063,867	10,479,190	584,677
3,797,029	2,830,908	966,121
6,817,673	5,831,367	986,306
252,518	865,150	(612,632)
1,387,351	2,747,952	(1,360,601)
328,962	1,575,752	(1,246,790)
55,603,132	56,557,222	(954,090)
(33,363)	1,766,284	1,799,647
666,912	1,358,319	691,407
(666,912)	(1,358,319)	(691,407)
122,719	22,450,690	22,327,971
122,719	22,450,690	22,327,971
89,356	24,216,974	24,127,618
10,225,797	10,225,797	
$ 10,315,153	$ 34,442,771	$ 24,127,618

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Santa Cruz City Schools conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants, except that a complete historical cost record of fixed assets has not been maintained. The Santa Cruz City Schools accounts for its financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The District includes all funds, account groups, and other entities that are controlled by or dependent on the District's governing board for financial reporting purposes. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles. For financial reporting purposes the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements as if it were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The California School Boards Association Finance Corporation's financial activity is presented in the financial statements as the COP Capital Projects Fund and the Debt Service Fund. Certificates of participation issued by the Corporation are included in the General Long-term Debt Account Group.

Certificates of Participation

The District has issued certificates of participation to finance the building of a new district office. The proceeds of the issuance were also used to pay off the mortgage loan of the existing district office. The California School Boards Association Finance Corporation has been designated as the trustee and maintains the funds for the acquisition of the new building and the debt service requirements. The financial transactions for those funds in trust are included as a component financial reporting entity.

B. 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 balance, 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 accounts are organized into fund types and account groups as follows:

Governmental Funds

- 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 specific revenue sources that are legally restricted to expenditures for specific purposes.
- Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.
- Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets.

Fiduciary Funds

- Expendable Trust Funds are used to account for assets held by the District as trustee.
- Agency Funds are used to account for assets of others for which the District acts as agent.

Account Group

- General Long-term Debt Account Group is used to account-for long-term liabilities expected to be financed from governmental fund types.

C. 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 become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

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

D. Budgets and Budgetary Accounting

The District's governing board adopts an operating budget no later than July 1 in accordance with state law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

E. Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

F. Inventory of Supplies

Inventory in the applicable General and Cafeteria Funds consists of expendable supplies held for consumption, and is valued at cost utilizing the average cost method. Inventory in the applicable Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are withdrawn from the stores inventory 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.

G. Prepaid Expenditures

Prepaid expenditures or expenses represent payments made to vendors for services that will benefit periods beyond June 30.

H. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The amount of the liability expected to be paid from current resources is recognized at year-end in the governmental fund that will pay the benefit.

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.

I. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

J. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes for the District. The District recognizes tax revenues when received.

K. Deferred Revenue

Deferred revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

L. Total (Memorandum Only) Columns on Combined Statements

The District has presented these column totals only to satisfy various reporting requirements. This information shall take into consideration that it does not represent consolidated financial information.

SANTA CRUZ CITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE #2 - CASH

Cash at June 30, 1999, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *				
	1	2	3	Total	Carrying Amount
Categorized					
Deposits					
Cash on hand and in banks	$ 259,558		$ 126,380	$ 385,938	$ 402,368
Cash in revolving fund	27,738			27,738	15,639
Cash with fiscal agent			1	1	1
Total Deposits	$ 287,296		$ 126,381	$ 413,677	$ 418,008

*These categories are as follows:

Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

NOTE #3 - INVESTMENTS

Investments at June 30, 1999, held on behalf of the Santa Cruz City Schools are presented below and categorized separately to give an indication of the level of risk associated with each investment:

	Category *			Reported	Fair
	1	2	3	Amount	Value
COP Funds					
Federated Treasury Obligations			$ 487,102	$ 487,102	$ 487,102
Foundation Funds					
W. R. Grace & Co.					
410 shares of common stock			7,790	7,790	7,790
Fresenious National Medical Care Holdings					
410 shares of common stock			28,008	28,008	28,008
AT&T					
996 shares of common stock			55,589	55,589	55,589
Atlantic Richfield Co.					
280 shares of common stock			23,398	23,398	23,398
Bell South Corporation					
792 shares of common stock			19,256	19,256	19,256
Pacific Gas and Electric Corp.					
500 shares of common stock			16,219	16,219	16,219
Pacific Gas and Electric Corp.					
15 shares of 6% redeemable preferred			487	487	487
Lucent Technologies			57,996	57,996	57,996
AT&T					
30 year 8.75% Debenture due 5/15/00					
Union Pacific Corp.					
880 shares of common stock			51,782	51,782	51,782
Total			$ 747,627	747,627	747,627
Uncategorized					
Deposits with County Treasurer				36,594,345	36,484,687
				$ 37,341,972	$ 37,232,314

*These categories are as follows:

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.

Category 3: Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent but not in the District's name.

A. Authorized Investments

The District is authorized to make direct investments in local agency bonds, notes or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies/certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

B. Deposits with County Treasurer

Deposits with County Treasurer is an external investment pool sponsored by the County of Santa Cruz. School districts are required to deposit all receipts and collections of moneys with their county treasurer (Education Code Section 41001). Therefore, the District is considered to be an involuntary participant in an external investment pool. County deposits are not required to be categorized. The fair value for these deposits was provided by the pool sponsor.

NOTE #4 - ACCOUNTS RECEIVABLE

Receivables at June 30, 1999, consist of the following:

	General	Special Revenue	Capital Projects	Trust and Agency	Total
Federal Government					
Categorical aid	$ 1,029,981	$ 208,643			$ 1,238,624
State Government					
Categorical aid					
Lottery	268,475				268,475
Apportionment	68,535				68,535
Deferred maintenance		194,344			194,344
Other state	411,858	23,468			435,326
Local Government					
Interest	76,591				76,591
Other Local Sources	821,484	48,787	$ 3,866	$ 64,400	938,537
Total	$ 2,676,924	$ 475,242	$ 3,866	$ 64,400	$ 3,220,432

NOTE #5 - INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Individual fund interfund receivable and payable balances at June 30, 1999, are as follows:

Funds	Interfund Receivables	Interfund Payables
General	$ 835,896	$ 1,242,595
Adult Education	91,400	222,912
Cafeteria	95,484	185,013
Deferred Maintenance	274,122	345,648
Building	2	29,579
Capital Facilities		1,256
Retiree Benefits	816,402	86,303
Total	$ 2,113,306	$ 2,113,306

B. Operating 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 year ended June 30, 1999, are as follows:

The General fund transferred to the Adult fund for one time grants	$ 17,472
The General fund transferred to the Cafeteria fund for needy meals on revenue limit	346,919
The General fund transferred to the Deferred Maintenance fund for state match	234,795
The General fund transferred to the Building fund for CSR facilities funding	40,000
The General fund transferred to the Certificates of Participation (1998) for debt service payments	203,610
The Certificates of Participation (1994) fund transferred to the Certificates of Participation (1998) for defeasance of debt	515,523
Total	$ 1,358,319

NOTE #6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 1999, consists of the following:

	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	Total
Accrued salaries and benefits	$ 52,318	$ 8,140		$ 45		$ 60,503
Accrued vacation	216,489	19,908		394		236,791
Construction		101,803		406,673		508,476
Other	1,113,447	149,396	$ 49,686	72,238	$ 30,850	1,415,617
Total	$ 1,382,254	$ 279,247	$ 49,686	$ 479,350	$ 30,850	$ 2,221,387

NOTE #7 - DEFERRED REVENUE

Deferred revenue at June 30, 1999, consists of the following:

	General	Special Revenue	Total
Federal financial assistance	$ 173,589		$ 173,589
State categorical aid	948,074	$ 10,055	958,129
Other	222,813	681	223,494
Total	$ 1,344,476	$ 10,736	$ 1,355,212

NOTE #8 - FUND BALANCES

Fund balances are composed of the following elements:

	General	Special Revenue	Debt Service	Capital Projects	Trust Funds
Reserved					
Revolving cash	$ 15,000	$ 639			
Stores inventory	91,231	56,866			
Prepaid expenditures	644				
Categorical	1,193,264				
Total Reserved	1,300,139	57,505			
Unreserved					
Designated					
Economic uncertainties	1,501,637	104,930			
Site carryover	232,364				
One time carryover	263,913				
Department carryover	164,804				
Salary		50,000			
Program improvements		74,000			
Capital improvements		248,000			
Branciforte modernization				$ 148,071	
Scholarships					$ 1,411,538
Other	124,307	19,710			
Total Designated	2,287,025	496,640		148.071	1,411,538
Undesignated	2,340,900	1,850,645	$ 1,918,052	24,043,794	1,295,877
Total Unreserved	4,627,925	2,347,285	1,918,052	24,191,865	2,707,415
Total	$ 5,928,064	$ 2,404,790	$ 1,918,052	$ 24,191,865	$ 2.707,415

NOTE #9 - GENERAL LONG-TERM DEBT

A. Long-term Debt Summary

A schedule of changes in long-term debt for the year ended June 30, 1999, is shown below:

	Balance Beginning of Year	Additions and Adjustments	Deductions	Balance End of Year
General obligation bonds		$ 22,000,000		$ 22,000,000
State school building loans	$ 6,421	200	$ 2,243	4,378
Certificates of participation	5,765,000	6,720,000	5,765,000	6,720,000
Postemployment benefits - net	1,123,719	670,944	391,478	1,403,185
Golden Handshake	385,273	679,968	385,273	679,968
Capital leases	263,959	122,719	105,092	281,586
	$ 7,544,372	$ 30,193,831	$ 6,649,086	31,089,117
Amount currently available and reserved for retirement of general long-term debt				
Bond interest and redemption			1,428,593	
Tax override			2,356	
COP debt service			487,103	
Retiree benefits			1,295,877	3,213,929
Amount to be provided for retirement of general long-term debt				$ 27,875,188

B. Bonded Debt

The outstanding general obligation bonded debt is as follows:

Santa Cruz City Elementary

Serial Bonds: Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding Beginning of Year	Issued	Bonds Outstanding End of Year
07/01/98	Various	4.75%-5.00%	$4,345,000		$ 4,345,000	$ 4,345,000
Term Bonds:						
07/01/98	11/1/2000	5.00%	2,655,000		2,655,000	2,655,000
					$ 7,000,000	$ 7,000,000

Santa Cruz City High

Serial Bonds: Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding Beginning of Year	Issued	Bonds Outstanding End of Year
07/01/98	Various	4.875%-5.00%	$6,835,000		$ 6,835,000	$ 6,835,000
Term Bonds:						
07/01/98	11/01/2020	5.100%	2,470,000		2,470,000	2,470,000
07/01/98	11/01/2027	5.125%	5,695,000		5,695,000	5,695,000
					$15,000,000	$ 15,000,000

Debt Service Requirements to Maturity

Santa Cruz City Elementary

Fiscal Year	Principal	Interest to Maturity	Total
2000	$ 95,000	$ 349,149	$ 444,149
2001	130,000	343,805	473,805
2002	135,000	337,511	472,511
2003	140,000	330,980	470,980
2004	145,000	324,030	469,030
Thereafter	6,355,000	4,780,319	11,135,319
Total	$ 7,000,000	$ 6,465,794	$ 13,465,794

Santa Cruz City High

Fiscal Year	Principal	Interest to Maturity	Total
2000	$ 205,000	$ 752,061	$ 957,061
2001	275,000	740,361	1,015,361
2002	285,000	726,711	1,011,711
2003	295,000	712,573	1,007,573
2004	310,000	697,826	1,007,826
Thereafter	13,630,000	10,322,742	23,952,742
Total	$ 15,000,000	$ 13,952,274	$ 28,952,274

C. State and Public School Building Loans

State school building loans outstanding as of June 30, 1999, are as follows:

Year Disbursed	Interest Rate	Balance Beginning of Year	Interest Charge	Repayment and State Credit Current Year	Outstanding End of Year
1979	4.8	$ 6,421	$ 494	$ 2,537	$ 4,378

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

D. Certificates of Participation

In August 1998, the California School Boards Association Finance Corporation, on behalf of Santa Cruz City Schools, issued certificates of participation in the amount of $6,720,000 with interest rates ranging from 4.3 to 5.0 percent. At June 30, 1999, the principal balance outstanding was $6,720,000.

The certificates mature through April 15, 2024 as follows:

Year Ending June 30,	Principal	Interest	Total
2000	$ 135,000	$ 318,755	$ 453,755
2001	155,000	312,950	467,950
2002	160,000	306,285	466,285
2003	170,000	299,405	469,405
2004	175,000	292,095	467,095
Thereafter	5,925,000	3,509,508	9,434,508
Total	$ 6,720,000	$ 5,038,998	$ 11,758,998

E. Postemployment Benefits

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55. Currently, 102 employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees premiums are paid which amounted to $391,478 for 1998-99.

The approximate accumulated future liability for the District at June 30, 1999, amounts to $1,403,185. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in affect at June 30, 1999, multiplied by the number of years of payments remaining.

F. Golden Handshake

The District has entered into Golden Handshake agreements with some certificated employees whereby the employee is credited with additional service years toward their STRS pension. The outstanding balance at June 30, 1999, amounted to $679,968.

G. Capital Leases

The District's liability on lease agreements with options to purchase are summarized below:

	Relocatable	Computer Equipment	School Bus	Equipment	Total
Balance, Beginning of Year	$ 8,750	$ 282,044			$ 290,794
Additions			$ 82,879	$ 39,840	122,719
Payments	(8,250)	(123,677)			(131,927)
Balance, End of Year	$ 500	$ 158,367	$ 82,879	$ 39,840	$ 281,586

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2000	$ 120,705
2001	120,206
2002	34,761
2003	34,761
Total	310,433
Less: Amount Representing Interest	(28,847)
Present Value of Minimum Lease Payments	$ 281,586

NOTE #10 – CERTIFICATES OF PARTICIPATION – DEFEASED DEBT

On August 1, 1998, the District issued certificates of participation of $6,720,000 (par value) with variable interest rates of 4.3 to 5 percent to advance refund term bonds with an interest rate of 4.9 to 6.6 percent and a par value of $5,765,000. The certificates mature on May 1st each year. The certificates were issued at par and, after paying issuance costs of $193,200, the net proceeds were $6,479,951. The net proceeds from the issuance of the certificates were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments for the 1994 COP's issue. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's General Long-term Debt Account Group.

NOTE #11 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

A. PERS

Plan Description

The 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 Laws. 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, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (7 percent 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 percent of annual payroll (decreasing to 6.033 percent of pay under a special funding situation effective with the January 1998 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 1999, 1998, and 1997 were $335,656, $396,259, and $411,484, respectively, and equal 100 percent of the required contributions for each year.

B. STRS

Plan Description

The District contributes to the California 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 and disability benefits 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 STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 1997-98 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal year ending June 30, 1999, 1998, and 1997 were $1,963,101, $1,810,136, and $1,721,351, respectively, and equal 100 percent of the required contributions for each year.

C. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of $1,566,542 (6.126 percent of salaries subject to STRS) and mandated costs for STRS and PERS benefits in the amount of $95,605 (0.145 percent of salaries subject to STRS) and $6,560 (.093 percent of salaries subject to PERS). Under generally accepted accounting principles, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report (J-200). These amounts also have not been recorded in these financial statements.

NOTE #12 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation. In the opinion of management (and legal counsel), the disposition of all litigation pending will not have a material effect on the District's financial statements.

B. Sick Leave

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized in the District's financial statements.

C. State and Federal Allowances. Awards and Grants

The District has received State and Federal 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. in the opinion of management any required reimbursements will not be material.

D. Early Retirement

The District has adopted an early retirement incentive program. The District has entered into contracts with certain eligible employees whereby 20 service days per year will be performed during the future five-year period or age 65, whatever comes first, for a stipulated yearly amount plus employee benefits. The outstanding contract amount for this purpose is $57,600. This amount is contingent upon the employee performing the required service days per year.

E. Construction Commitments

As of June 30, 1999, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Santa Cruz High and Harbor High gym floor replacement	$ 424,930	08/31/99
Santa Cruz High and Harbor High gym bleacher replacement	140,601	09/23/99
Soquel parking lot resurfacing	219,950	08/31/99
Install multi-site playground equipment	214,878	08/15/99
Multi site playbox enhancement	349,949	08/16/99
Reroof gym of Santa Cruz High School	282,105	08/20/99
Installation of relocatables and playbox enhancement	157,225	08/16/99
Santa Cruz High School theater renovation	488,887	11/30/99
	$ 2,278,525	

NOTE #13 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Santa Cruz County Schools' Health Insurance Group, the Santa Cruz/San Benito County Schools' Insurance Group, and Southern Peninsula Region Property and Liability Insurance Group public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the pools are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

A. Entity	Santa Cruz County Schools' Health Insurance Group	Santa Cruz/San Benito County Schools' Insurance Group	Southern Peninsula Region Property and Liability Insurance Group	North Santa Cruz County Special Education Local Plan Area
B. Purpose	Provides vision, health and dental	Provides Worker's Compensation	Provides Property and liability	Provides educational plan for children with exceptions needs
C. Participants	Various school districts and county offices	Various school districts and county offices	Various school districts and county offices	Various school districts and county offices
D. Governing Board	School district and county representatives	School district and county representatives	School district and county representatives	Various school districts and county offices

E. Condensed Audited Financial Information Follows

	June 30, 1999	June 30, 1999	June 30, 1999	June 30, 1999
Assets	$ 5,676,750	$ 3,698,087	$ 1,009,611	$ 743,183
Liabilities	2,242,173	967,267	718,457	143,595
Fund Equity	$ 3,434,577	$ 2,730,820	$ 291,154	$ 599,588
Revenues	17,041,738	4,068,915	648,923	743,685
Expenses	17,161,927	4,387,775	744,768	329,608
Net Increase/(Decrease) in Fund Equity	$ (120,189)	$ (318,860)	$ (95,845)	$ 414,077
F. Payments for the Current Year	$ 4,821,952	$ 564,707	$ 11,559	N/A

None of the JPA's had long-term debts outstanding at June 30, 1999. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE #14 - TAX AND REVENUE ANTICIPATION NOTES

The District on July 1, 1998, issued $4,200,000 of Tax Revenue and Anticipation Notes to finance seasonal cash flow requirements. The Notes matured on July 30, 1999, with an investment yield of 3.85 percent.

The District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the Tax Anticipation Notes of $4,200,000 and related accrued interest and cash held in trust are not included in these financial statements.

NOTE #15 - SUBSEQUENT EVENTS

The District on July 1, 1999, issued $2,850,000 Tax and Revenue Anticipation Notes to finance seasonal cash flow requirements. The maturity date of the Notes are June 30, 2000, with an investment yield of 3.1 percent.

NOTE #16 - EXPENDITURES (BUDGET VERSUS ACTUAL)

The expenditures of two District funds exceeded the budgeted amounts in total as follows:

	Expenditures and Other Uses		
Funds	Budget	Actual	Excess
Building	$ 10,387	$ 1,532,643	$ 1,522,256
State School Building	$ 185,140	$ 191,501	$ 6,361

No budget amounts are included for the Debt Service and Capital Project COP funds.

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APPENDIX B

FORM OF BOND COUNSEL OPINION

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APPENDIX B

FORM OF FINAL OPINION OF BOND COUNSEL

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

Board of Education
Santa Cruz City Elementary School District
2931 Mission Street
Santa Cruz, California 95060

OPINION: $5,100,000 Santa Cruz City Elementary School District (Santa Cruz County, California) Bond Anticipation Notes, Series 2000

Members of the Board of Education:

We have acted as bond counsel in connection with the delivery by the Santa Cruz City Elementary School District (the "District") of $5,100,000 aggregate principal amount of notes of the District, designated the "Santa Cruz City Elementary School District (Santa Cruz County, California) Bond Anticipation Notes, Series 2000" (the "Notes"), pursuant to the laws of the State of California and pursuant to a Resolution adopted by the Board of Education of the District on September 6, 2000 (the "Authorizing Resolution"), authorizing the issuance of the Notes.

We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the District contained in the Authorizing Resolution and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The District is a school district duly organized and existing under the laws of the State of California, with power to adopt into the Authorizing Resolution, to perform the agreements on its part contained therein and to issue the Notes. The Notes constitute legal, valid and binding special obligations of the District enforceable in accordance with their terms and payable solely from the sources provided therefor in the Authorizing Resolution.

2. The Authorizing Resolution has been duly adopted by the Board of Trustees of the District and constitutes a legal, valid and binding obligation of the District enforceable against the District in accordance with its terms. The Authorizing Resolution establishes a valid first and exclusive lien on and pledge of the proceeds of the General Obligation Bonds (as such term is defined in the Authorizing

Resolution) and other funds pledged thereby for the security of the Notes, in accordance with the terms of the Authorizing Resolution.

3. Interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District with all requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Notes 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 Authorizing Resolution and in other instruments relating to the Notes 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 Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. We express no opinion regarding other federal tax consequences arising with respect to the Notes.

4. Interest on the Notes is exempt from California personal income taxation.

The rights of the owners of the Notes, and the enforceability of the Notes and the Authorizing Resolution, may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the SANTA CRUZ CITY ELEMENTARY SCHOOL DISTRICT (the "District") in connection with the issuance by the District of $5,100,000 Santa Cruz City Elementary School District (Santa Cruz County, California), Bond Anticipation Notes, Series 2000 (the "Notes"). The Notes are being issued pursuant to a resolution adopted by the Board of Education of the District on September 6, 2000 (the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Notes and in order to assist the Participating 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:

"*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 3(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 Notes required to comply with the Rule in connection with offering of the Notes.

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

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 3, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

(i) Principal and interest payment delinquencies.
(ii) Non-payment related defaults.
(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
(v) Substitution of credit or liquidity providers, or their failure to perform.
(vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
(vii) Modifications to rights of security holders.
(viii) Contingent or unscheduled bond calls.
(ix) Defeasances.
(x) Release, substitution, or sale of property securing repayment of the securities.
(xi) 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 law.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with each National Repository or with the Municipal Securities Rulemaking Board and with each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Notes pursuant to the Resolution.

Section 4. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the final maturity of the Notes, the District shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

Section 5. 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. The initial Dissemination Agent shall be the District.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Notes , or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Notes.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and 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 9. 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 Notes.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Notes, and shall create no rights in any other person or entity.

Date: [Closing Date]

SANTA CRUZ CITY ELEMENTARY
SCHOOL DISTRICT

By ______________________________
Superintendent

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