

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 11, 2019

**NEW ISSUE: TAX ANTICIPATION NOTES
BANK QUALIFIED**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Notes. See "Tax Matters" herein.

The School District WILL designate the Notes as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986.

\$7,000,000

**BABYLON UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK**

\$ 7,000,000 TAX ANTICIPATION NOTES, 2018

DATED: SEPTEMBER 26, 2019

DUE: JUNE 19, 2020

The Notes are general obligations of the Babylon Union Free School District, Suffolk County, New York, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, subject to applicable statutory limitations. See "Nature of Obligation" and "The Tax Levy Limit Law" herein. The Notes will not be subject to redemption prior to maturity.

The Notes shall be issued as book-entry only notes registered to Cede & Co., DTC will act as securities depository for the Notes and owners will not receive certificates representing their interest in the Notes. Individual purchases of such registered Notes may be made in denominations of \$5,000 or integral multiples thereof. A single note certificate will be issued for those Notes bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser at such interest rate. Principal of and interest on said Notes will be paid in Federal Funds by the School District to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its participants for subsequent distribution to the beneficial owners of the Notes as described herein. See "Book-Entry-Only System" herein.

The Notes are offered when, as and if issued and received by the Purchaser and subject to the receipt of the approving legal opinion as to the validity of the Notes of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, of New York City. It is anticipated that the Notes will be available for delivery through the facilities of DTC in Jersey City, New Jersey, or at such other place as may be agreed with the Purchaser on or about September 26, 2019.

FOR A DESCRIPTION OF THE DISTRICT'S AGREEMENT TO PROVIDE NOTICE OF MATERIAL EVENTS AS DESCRIBED IN SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12, SEE "DISCLOSURE UNDERTAKING" HEREIN.

September __, 2019

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New York, New York

FINANCIAL ADVISOR



CAPITAL MARKETS ADVISORS, LLC
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No person has been authorized by the Babylon Union Free School District to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information, estimates and expressions of opinion herein 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 the affairs of the Babylon Union Free School District.

TABLE OF CONTENTS

	<u>Page</u>
THE NOTES	1
Authority for and Purpose of the Notes	2
Nature of Obligation	2
SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT	3
Book-Entry-Only System	5
Certificated Notes	6
MARKET MATTERS AFFECTING FINANCINGS OF MUNICIPALITIES OF THE STATE	6
THE STATE COMPTROLLER’S FISCAL STRESS MONITORING SYSTEM AND STATE COMPTROLLER’S COMPLIANCE REVIEWS	7
TAX MATTERS	8
Opinion of Bond Counsel	8
MUNICIPAL ADVISOR	8
LEGAL MATTERS	9
LITIGATION	9
MATERIAL EVENT NOTICES	9
RATING	10
MISCELLANEOUS	11

Appendix A

BABYLON UNION FREE SCHOOL DISTRICT	A-1
General Information	A-1
Comparative Housing and Income Data	A-1
Form of School Government	A-1
Budgetary Procedures	A-1
State Aid	A-2
Events Affecting State Aid to New York School Districts	A-2
School Facilities	A-3
Enrollment Trends	A-4
Employees	A-4
Employee Pension Benefits	A-4
Unemployment Rate Statistics	A-6
Other Information	A-6
FINANCIAL INFORMATION	A-7
Revenues, Expenditures and Fund Balance - General Fund	A-7
Financial Statements	A-7
Investment Policy	A-7
TAX INFORMATION	A-7
Valuations	A-7
Tax Limit	A-8
The Tax Levy Limit Law	A-8
Real Property Tax Rebate	A-8
Tax Collection Procedure	A-9
STAR - School Tax Exemption	A-9
Larger Taxpayers	A-9
STATUS OF INDEBTEDNESS	A-9
Constitutional Requirements	A-9
Statutory Procedure	A-10
Debt Outstanding End of Fiscal Year	A-11
Details of Outstanding Indebtedness	A-11
Lease Financing Obligations	A-11
Capital Project Plans	A-11
Summary of Debt Limit	A-11
Debt Ratios	A-12
Tax Anticipation Notes	A-12
Estimated Overlapping Indebtedness	A-12
Bond Principal and Interest Maturity Table	A-13
INVESTMENT POLICY	A-13

APPENDIX B – FINANCIAL STATEMENT SUMMARIES AND CASH FLOWS
APPENDIX C – 2018 AUDITED FINANCIAL REPORT LINK
APPENDIX D – FORM OF BOND COUNSEL’S OPINION

OFFICIAL STATEMENT
of the
BABYLON UNION FREE SCHOOL DISTRICT
SUFFOLK COUNTY, NEW YORK

Relating To
\$7,000,000 Tax Anticipation Notes, 2019

This Official Statement, which includes the cover page, has been prepared by the Babylon Union Free School District, Suffolk County, New York (the "School District," "County," and "State," respectively) in connection with the sale by the School District of \$7,000,000 principal amount of Tax Anticipation Notes, 2019 (the "Notes").

The factors affecting the School District's financial condition and the Notes are described throughout this Official Statement. Inasmuch as many of these factors, including economic and demographic factors, are complex and may influence the School District tax base, revenues, and expenditures, this Official Statement should be read in its entirety, and no one factor should be considered more or less important than any other by reason of its relative position in this Official Statement.

All quotations from and summaries and explanations of provisions of the Constitution and laws of the State and acts and proceedings of the School District contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Notes and the proceedings of the School District relating thereto are qualified in their entirety by reference to the definitive forms of the Notes and such proceedings.

All financial and other information presented herein has been provided by the School District from its records, except information expressly attributed to other sources. The presentation of such information is intended to show recent historical data and is not intended to indicate or predict future or continuing trends in the financial position or other affairs of the School District. No representation is made that past experience will necessarily continue or be repeated in the future. The information, estimates and opinions provided herein are subject to change without notice from the date hereof.

THE NOTES

The Notes are general obligations of the School District, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Notes thereon as required by the Constitution and laws of the State of New York (State Constitution, Art. VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the School District is subject to the levy of ad valorem taxes to pay the Notes and interest thereon, subject to applicable statutory limitations. See "Nature of Obligation" herein and "TAX INFORMATION - The Tax Levy Limit Law" herein.

The Notes will be dated and will mature, without option of prior redemption, as stated on the cover page.

At the option of the purchaser, the Notes will be issued in (i) registered form registered in the name of the successful bidder(s) or (ii) registered book-entry form registered to Cede & Co., as the partnership nominee for The Depository Trust Company, New York, New York ("DTC").

If the Notes are issued registered in the name of the successful bidder, a single note certificate will be issued for those Notes of an issue bearing the same rate of interest in the aggregate principal amount awarded to such purchaser at such interest rate. Principal of and interest on such Notes will be payable in Federal Funds by the District.

For those Notes issued as book-entry only notes registered to Cede & Co., DTC will act as securities depository for the Notes and owners will not receive certificates representing their interest in the Notes. Individual purchases of such registered Notes may be made in denominations of \$5,000 or integral multiples thereof. A single note certificate will be issued for those Notes bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser(s) at such interest rate. Principal of and interest on said Notes will be paid in Federal Funds by the School District to Cede & Co., as nominee for DTC, which will in turn remit such principal and interest to its participants for subsequent distribution to the beneficial owners of the Notes as described herein. See "Book-Entry-Only System" herein.

The School District's contact information is as follows: Dr. Peter R. Daly, Deputy Superintendent, 50 Railroad Avenue, Babylon, NY 11702, Phone: (631) 893-7914, Fax: (631) 893-7938 pdaly@babylonschools.org.

The Notes will not be subject to prior redemption prior to maturity. Interest will be calculated on a 30-day month and 360-day year basis, payable at maturity.

Authority for and Purpose of the Notes

The Notes are issued pursuant to the Constitution and laws of the State, including Sections 24.00 and 39.00 of the Local Finance Law, constituting Chapter 33-a of the Consolidated Laws of New York, and a tax anticipation note resolution adopted by the Board of the District to finance cash flow requirements in anticipation of the collection of 2019-2020 real property taxes levied for school and library purposes on all taxable real property in the District. The proceeds of the Notes may be used only for the purposes for which such taxes were or are to be levied, unless all of said purposes have been paid and satisfied, in which case the proceeds of the notes may be used for any lawful school purpose. The proceeds of the Notes will not be used for the redemption or renewal of any outstanding tax or revenue anticipation notes.

Pursuant to Section 24.00(e) of the Local Finance Law, generally, whenever the amount of the Notes and any additional tax anticipation notes issued by the District in anticipation of the receipt of 2019-2020 real property taxes equals the amount of such taxes remaining uncollected, the District is required to set aside in a special bank account all of such uncollected taxes as thereafter collected, and to use the amounts so set aside only for the purpose of paying such Notes. Interest on the Notes will be provided from budget appropriations.

Nature of Obligation

Each Note when duly issued and paid for will constitute a contract between the School District and the holder thereof.

Holders of any series of notes or bonds of the School District may bring an action or commence a proceeding in accordance with the civil practice law and rules to enforce the rights of the holders of such series of notes or bonds.

The Notes will be general obligations of the School District and will contain a pledge of the faith and credit of the School District for the payment of the principal thereof and the interest thereon as required by the Constitution and laws of the State. For the payment of such principal and interest, the School District has power and statutory authorization to levy ad valorem taxes on all real property within the School District subject to such taxation by the School District subject to applicable statutory limitations. See "TAX INFORMATION-The Tax Levy Limit Law" herein.

Although the State Legislature is restricted by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay "interest on or principal of indebtedness theretofore contracted" prior to the effective date of any such legislation, the New York State Legislature may from time to time impose additional limitations or requirements on the ability to increase a real property tax levy or on the methodology, exclusions or other restrictions of various aspects of real property taxation (as well as on the ability to issue new indebtedness). On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor, as amended, (the "Tax Levy Limit Law"). The Tax Levy Limit Law applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities and school districts to levy certain year-to-year increases in real property taxes.

Under the Constitution of the State, the School District is required to pledge its faith and credit for the payment of the principal of and interest on the Notes and is required to raise real estate taxes, and without specification, other revenues, if such levy is necessary to repay such indebtedness. While the Tax Levy Limit Law imposes a statutory limitation on the School District's power to increase its annual tax levy with the amount of such increase limited by the formulas set forth in the Tax Levy Limit Law, it also provides the procedural method to surmount that limitation. See "The Tax Levy Limit Law," herein.

The Constitutionally-mandated general obligation pledge of municipalities and school districts in New York State has been interpreted by the Court of Appeals, the State's highest court, in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), as follows:

"A pledge of the City's faith and credit is both a commitment to pay and a commitment of the city's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the city's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith" and "credit" are used and they are not tautological. That is what the words say and this is what the courts have held they mean . . . So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the City's power to levy taxes on real estate for the payment of interest on or principal of indebtedness previously contracted. While phrased in permissive language, these provisions,

when read together with the requirement of the pledge and faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded”.

In addition, the Court of Appeals in the Flushing National Bank (1976) case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of political subdivisions in New York State.

The pledge has generally been understood as a promise to levy property taxes without limitation as to rate or amount to the extent necessary to cover debt service due to language in Article VIII Section 10 of the Constitution which provides an exclusion for debt service from Constitutional limitations on the amount of a real property tax levy, insuring the availability of the levy of property tax revenues to pay debt service. As the Flushing National Bank (1976) Court noted, the term “faith and credit” in its context is “not qualified in any way”. Indeed, in Flushing National Bank v. Municipal Assistance Corp., 40 N.Y.2d 1088 (1977) the Court of Appeals described the pledge as a direct constitutional mandate. In Quirk v. Municipal Assistance Corp., 41 N.Y.2d 644 (1977), the Court of Appeals stated that, while holders of general obligation debt did not have a right to particular revenues such as sales tax, “with respect to traditional real estate tax levies, the bondholders are constitutionally protected against an attempt by the State to deprive the city of those revenues to meet its obligations.” According to the Court in Quirk, the State Constitution “requires the city to raise real estate taxes, and without specification other revenues, if such a levy be necessary to repay indebtedness.”

In addition, the Constitution of the State requires that every county, city, town, village, and school district in the State provide annually by appropriation for the payment of all interest and principal on its serial bonds and certain other obligations, and that, if at any time the respective appropriating authorities shall fail to make such appropriation, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. In the event that an appropriating authority were to make an appropriation for debt service and then decline to expend it for that purpose, this provision would not apply. However, the Constitution of the State does also provide that the fiscal officer of any county, city, town, village, or school district may be required to set apart and apply such first revenues at the suit of any holder of any such obligations.

In Quirk v. Municipal Assistance Corp., the Court of Appeals described this as a “first lien” on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in New York State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy to pay debt service on such obligations, but that such pledge may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues.

While the courts in New York State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

State Aid Intercept For School Districts. In the event of a default in the payment of the principal of and/or interest on the Notes, the State Comptroller is required to withhold, under certain conditions prescribed by Section 99-b of the State Finance Law, state aid and assistance to the School District and to apply the amount thereof so withheld to the payment of such defaulted principal and/or interest, which requirement constitutes a covenant by the State with the holders from time to time of the Notes. The covenant between the State of New York and the purchasers and the holders and owners from time to time of the notes and bonds issued by the school districts in the State for school purposes provides that it will not repeal, revoke or rescind the provisions of Section 99-b, or amend or modify the same so as to limit, impair or impede the rights and remedies granted thereby.

Said section provides that in the event a holder or owner of any bond issued by a school district for school purposes shall file with the State Comptroller a verified statement describing such bond and alleging default in the payment thereof or the interest thereon or both, it shall be the duty of the State Comptroller to immediately investigate the circumstances of the alleged default and prepare and file in his office a certificate setting forth his determinations with respect thereto and to serve a copy thereof by registered mail upon the chief fiscal officer of the school district which issued the bond. Such investigation by the State Comptroller shall cover the current status with respect to the payment of principal of and interest on all outstanding bonds of such school district issued for school purposes and the statement prepared and filed by the State Comptroller shall set forth a description of all such bonds of the school district found to be in default and the amount of principal and interest thereon past due.

Upon the filing of such a certificate in the office of the State Comptroller, he shall thereafter deduct and withhold from the next succeeding allotment, apportionment or payment of such State aid or assistance due to such school district such amount thereof as may be required to pay (a) the school district's contribution to the State teachers retirement system, and (b) the principal of and interest on such bonds of such school district then in default. In the event such State aid or assistance initially so withheld shall be insufficient to pay said amounts in full, the State Comptroller shall similarly deduct and withhold from each succeeding allotment, apportionment or payment of such State aid or assistance due such school district such amount or amounts thereof as may be required to cure such default. Allotments, apportionments and payments of such State aid so deducted or withheld by the State Comptroller for the payment of principal and interest on bonds shall be forwarded promptly to the paying agent or agents for the bonds in default of such school district for the sole purpose of the payment of defaulted principal of and interest on such bonds. If any of such successive allotments, apportionments or payments of such State Aid so deducted or withheld shall be less than the amount of all principal and interest on the bonds in default with respect to which the same was so deducted or withheld, then the State Comptroller shall promptly forward to each paying agent an amount in the proportion that the amount of such bonds in default payable to such paying agent bears to the total amount of the principal and interest then in default on such bonds of such school district. The State Comptroller shall promptly notify the chief fiscal officer of such school district of any payment or payments made to any paying agent or agents of defaulted bonds pursuant to said Section 99-b.

General Municipal Law Contract Creditors' Provision. Each Note when duly issued and paid for will constitute a contract between the School District and the holder thereof. Under current law, provision is made for contract creditors of the School District to enforce payments upon such contracts, if necessary, through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the School District upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might be construed to have application to the holders of the Notes in the event of a default in the payment of the principal of and interest on the Notes.

Execution/Attachment of Municipal Property. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. In accordance with the general rule with respect to municipalities, judgments against the School District may not be enforced by levy and execution against property owned by the School District.

Authority to File For Municipal Bankruptcy. The Federal Bankruptcy Code allows public bodies, such as municipalities, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness. While this Local Finance Law provision does not apply to school districts, there can be no assurance that it will not be made so applicable in the future.

State Debt Moratorium Law. There are separate State law provisions regarding debt service moratoriums enacted into law in 1975.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of The City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of obligations.

As a result of the Court of Appeals decision in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the School District.

Constitutional Non-Appropriation Provision. There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received

and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness.” This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. See “General Municipal Law Contract Creditors’ Provision” herein.

The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

Book-Entry-Only System

In the event the Notes are issued in book-entry form, the Depository Trust Company (“DTC”), Jersey City, New Jersey, will act as securities depository for the Notes. The Notes will be issued as fully-registered notes 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 will be issued for each Note which bears the same rate of interest and CUSIP number, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the 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 bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 the Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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 Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 the 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 the District, 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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.

Source: The Depository Trust Company

Certificated Notes

DTC may discontinue providing its services with respect to the Notes at any time by giving notice to the School District and discharging its responsibilities with respect thereto under applicable law, or the School District may terminate its participation in the system of book-entry-only system transfers through DTC at any time. In the event that such book-entry-only system is utilized and later discontinued, the following provisions will apply: The Notes will be issued in bearer form in denominations of \$5,000 or integral multiples thereof. Principal of and interest on the Notes will be payable at a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the School District. The Notes will remain not subject to redemption prior to their stated final maturity date.

MARKET MATTERS AFFECTING FINANCINGS OF MUNICIPALITIES OF THE STATE

There are certain potential risks associated with an investment in the Notes, and investors should be thoroughly familiar with this Official Statement, including its appendices, in order to make an informed investment decision. Investors should consider, in particular, the following factors:

The District's credit rating could be affected by circumstances beyond the District's control. Economic conditions such as the rate of unemployment and inflation, termination of commercial operations by corporate taxpayers and employers, as well as natural catastrophes, could adversely affect the assessed valuation of District property and its ability to maintain fund balances and other statistical indices commensurate with its current credit rating. As a consequence, a decline in the District's credit rating could adversely affect the market value of the Notes.

If and when an owner of any of the Notes should elect to sell all or a part of the Notes prior to maturity, there can be no assurance that a market will have been established, maintained and continue in existence for the purchase and sale of any of

those Notes. The market value of the Notes is dependent upon the ability of holder to potentially incur a capital loss if such Notes are sold prior to its maturity.

There can be no assurance that adverse events including, for example, the seeking by another municipality in the State or elsewhere of remedies pursuant to the Federal Bankruptcy Act or otherwise, will not occur which might affect the market price of and the market for the Bonds and the Notes. In particular, if a significant default or other financial crisis should occur in the affairs of the State or any of its municipalities, public authorities or other political subdivisions thereby possibly further impairing the acceptability of obligations issued by those entities, both the ability of the District to arrange for additional borrowing(s) as well as the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The District is dependent in part upon financial assistance from the State in the form of State aid as well as grants and loans to be received ("State Aid"). The District's receipt of State aid may be delayed as a result of the State's failure to adopt its budget timely and/or to appropriate State Aid to municipalities and school districts. Should the District fail to receive all or a portion of the amounts of State Aid expected to be received from the State in the amounts and at the times anticipated, occasioned by a delay in the payment of such moneys or by a reduction in State Aid or its elimination, the District is authorized pursuant to the Local Finance Law ("LFL") to provide operating funds by borrowing in anticipation of the receipt of such uncollected State Aid, however, there can be no assurance that, in such event, the District will have market access for any such borrowing on a cost effective basis. The elimination of or any substantial reduction in State Aid would likely have a materially adverse effect upon the District requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "*State Aid*" herein.)

Future amendments to applicable statutes whether enacted by the State or the United States of America affecting the treatment of interest paid on municipal obligations, including the Notes, for income taxation purposes could have an adverse effect on the market value of the Notes (see "*Tax Matters*" herein).

The enactment of the Tax Levy Limit Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the District, without providing exclusion for debt service on obligations issued by municipalities and fire districts, may affect the market price and/or marketability for the Notes. (See "*The Tax Levy Limit Law*" herein.)

Federal or State legislation imposing new or increased mandatory expenditures by municipalities, school districts and fire districts in the State, including the District could impair the financial condition of such entities, including the District and the ability of such entities, including the District to pay debt service on the Notes.

THE STATE COMPTROLLER'S FISCAL STRESS MONITORING SYSTEM AND STATE COMPTROLLER'S COMPLIANCE REVIEWS

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller ("OSC") has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school district and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school district's ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the State Comptroller. Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress," in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation." Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The most current applicable report of the State Comptroller designates the District as "No Designation."

See the State Comptroller's official website for more information on FSMS. Reference to this website implies no warranty of accuracy of information therein.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). Bond Counsel is of the further opinion that interest on the Notes is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The School District has covenanted to comply with certain restrictions designed to insure that interest on the Notes will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Notes being included in gross income for federal income tax purposes possibly from the date of original issuance of the Notes. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Notes.

Certain requirements and procedures contained or referred to in the Arbitrage Certificate, and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Notes) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Notes or the interest thereon if any such change occurs or action is taken or omitted.

Although Bond Counsel is of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes and is excluded from adjusted gross income for federal income taxes imposed by the State of New York and The City of New York, the ownership or disposition of, or the amount accrual or receipt of interest on, the Notes may otherwise affect a Owner’s federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Owner or the Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Note to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

MUNICIPAL ADVISOR

Capital Markets Advisors, LLC (the "Municipal Advisor"), serves as independent financial advisor to the School District on matters relating to debt management. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Notes and has reviewed and commented on certain legal documents, including this Official Statement. The advice on the plan of financing and the structuring of the Notes was based on materials provided by the School District and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the School District or the information set forth in this Official Statement or any other information available to the School District with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Notes are subject to the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. Bond Counsel's opinion will be in substantially the form attached hereto as Appendix D.

LITIGATION

The School District is subject to a number of lawsuits in the ordinary conduct of its affairs. The School District does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the School District.

There is no action, suit, proceedings or investigation, at law or in equity, before or by any court, public board or body pending or, to the best knowledge of the School District, threatened against or affecting the School District to restrain or enjoin the issuance, sale or delivery of the Notes or the levy and collection of taxes or assessments to pay same, or in any way contesting or affecting the validity of the Notes or any proceedings or authority of the School District taken with respect to the authorization, issuance or sale of the Notes or contesting the corporate existence or boundaries of the School District.

MATERIAL EVENT NOTICES

In accordance with the provisions of Rule 15c2-12, as the same may be amended or officially interpreted from time to time, (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), pursuant to the Securities Exchange Act of 1934, the School District has agreed to provide, or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, during the period in which the Note is outstanding, to the Electronic Municipal Markets Access ("EMMA") system of the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults, if material
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes.
- (g) modifications to rights of Note holders, if material
- (h) Note calls, if material and tender offers
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Notes
- (k) rating changes
- (l) bankruptcy, insolvency, receivership or similar event of the School District
- (m) the consummation of a merger, consolidation, or acquisition involving the School District or the sale of all or substantially all of the assets of the School District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material

(o) incurrence of a “financial obligation” (as defined in the “Rule”) of the District, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a financial obligation, any of which affect noteholders, if material;

(p) default, event of acceleration, termination event, modification of terms or other similar events under a financial obligation of the District, if any such event reflects financial difficulties

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no "debt service reserves" will be established for the Notes.

With respect to event (d) the School District does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

With respect to event (l) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the School District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the School District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the School District.

The School District may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the School District determines that any such other event is material with respect to the Notes; but the School District does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The School District reserves the right to terminate its obligations to provide the afore described notices of events, as set forth above, if and when the School District no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The School District acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the School District’s obligations under its material event notices undertaking and any failure by the School District to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

The School District reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the School District; provided that the School District agrees that any such modification will be done in a manner consistent with the Rule.

An “Undertaking to Provide Notice of Material Events” to this effect shall be provided to the purchaser(s) at closing.

The District has reviewed and modified its continuing disclosure practices to ensure that all annual filings and all material event notices are filed in a timely manner and, to the extent necessary, has also corrected any past failures to file.

RATING

The District did not apply to Moody’s Investor’s Service, Inc. (“Moody’s) for a rating on the Notes.

The District’s underlying credit rating from Moody’s is “Aa2”.

Such rating reflects only the view of such organization, and an explanation of the significance of such rating may be obtained only from such rating agency, at the following address: Moody’s Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. There can be no assurance that such rating will continue for any specified period of time or that such rating will not be revised or withdrawn, if in the judgment of Moody's circumstances so warrant. Any such change or withdrawal of such rating may have an adverse effect on the market price of such Notes or the availability of a secondary market for the Notes.

MISCELLANEOUS

Statements in the Official Statement, and the documents included by specific reference, that are not historical facts are “forward-looking statements”, within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the Private Securities Litigation Reform Act of 1995, which involve a number of risks and uncertainties, and which are based on the School District management’s beliefs as well as assumptions made by, and information currently available to, the School District management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of fact, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the School District files with the repositories. When used in School District documents or oral presentation, the words “anticipate”, “believe”, “intend”, “plan”, “foresee”, “likely”, “estimate”, “expect”, “objective”, “projection”, “forecast”, “goal”, “will, or “should”, or similar words or phrases are intended to identify forward-looking statements.

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holder of the Notes.

Orrick, Herrington & Sutcliffe LLP, New York, New York, bond counsel to the School District, expresses no opinion as to the accuracy or completeness of information in any documents prepared by or on behalf of the School District for use in connection with the offer and sale of the Notes, including but not limited to, the financial or statistical information in this Official Statement.

References herein to the Constitution of the State and various State and federal laws are only brief outlines of certain provisions thereof and do not purport to summarize or describe all of such provisions.

Concurrently with the delivery of the Notes, the School District will furnish a certificate to the effect that as of the date of the Official Statement, the Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading, subject to limitation as to information in the Official Statement obtained from sources other than the School District, as to which no representation can be made.

The Official Statement is submitted only in connection with the sale of the Notes by the School District and may not be reproduced or used in whole or in part for any other purpose.

The School District hereby disclaims any obligation to update developments of the various risk factors or to announce publicly any revision to any of the forward-looking statements contained herein or to make corrections to reflect future events or developments except to the extent required by Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Capital Markets Advisors, LLC may place a copy of this Official Statement on its website at www.capmark.org. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Capital Markets Advisors, LLC has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original sourced documents to digital format, and neither the School District nor Capital Markets Advisors, LLC assumes any liability or responsibility for errors or omissions on such website. Further, Capital Markets Advisors, LLC and the School District disclaims any duty or obligation either to update or to maintain the information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Capital Markets Advisors, LLC and the School District also assumes no liability or responsibility for any errors or omissions or for any updates to dated website information.

Additional information may be obtained upon request from the School District's Financial Advisor, Capital Markets Advisors, LLC, at (516) 364-6363 or from the District Treasurer at (631) 893-7938.

BABYLON UNION FREE SCHOOL DISTRICT

**Dated: Babylon, New York
September 11, 2019**

**ELIZABETH O'BRIEN
President, Board of Education**

APPENDIX A
THE DISTRICT

THE DISTRICT

General Information

The Babylon School District is located on the south shore of Long Island, approximately 39 miles east of New York City. The School District has a land area of approximately 2.8 square miles and a population estimated at 12,166. Approximately 90% of the Village of Babylon is located within the School District.

The southern boundary of the School District is the Great South Bay, which in addition to recreational facilities, provides School District residents access to Fire Island by ferry service. Located in the Town of Babylon, the School District is bounded by the West Islip School District to the east; North Babylon School District to the North; and by the West Babylon School District to the west.

The Village of Babylon and the Town of Babylon provide recreational facilities including fishing, boating and swimming. A swimming pool, bathing beach and various activities such as basketball, handball, arts and crafts, gymnastics, softball and tennis programs are offered to residents. Also, six mini-parks and a marina are maintained.

North-south travel is afforded by Deer Park Avenue, NY Route 231, Fire Island Avenue and Little East Neck Road. East-west arteries include NY Route 27A (Main Street). The Long Island Railroad provides frequent electrified service from Babylon to New York City and diesel service to points east. Bus service is available to local points.

The School District is predominantly residential. However, at the center of the Village of Babylon there is an active business and shopping area which provides employment opportunities to School District residents and attracts shoppers from neighboring communities.

Police protection is provided by the County of Suffolk. Fire protection is provided by the Village of Babylon and outside the Village by fire districts.

According to the 2010 US Census, median housing values and income levels for the Village of Babylon are well above County, State and US averages (see "Comparative Housing and Income Data" below).

Comparative Housing and Income Data

	<u>Village of Babylon</u>	<u>Suffolk County</u>	<u>State</u>	<u>U.S.</u>
<u>Housing:</u>				
% Owner Occupied Housing Units	75	79	54	64
Median Value Housing (\$)	442,900	383,400	288,200	176,700
Median Gross Rent (\$)	1,453	1,495	1,088	904
<u>Income:</u>				
Per Capita Income (\$)	43,541	36,945	32,382	28,155
Median Family Income	115,754	100,652	70,670	64,719
% Below Poverty Level	5.2	6.4	15.3	15.4

Source: 2010 Census of Population and Housing, US Department of Commerce, Bureau of the Census.

Form of School Government

The Board of Education which is the policy-making body of the School District, consists of seven members with overlapping five year terms. The President and the Vice President are selected by the Board members. The President of the Board is the chief fiscal officer of the School District.

Budgetary Procedures

Pursuant to the Education Law, the Board of Education annually prepares a detailed statement of estimated sums necessary for the various expenditures of the School District for the ensuing fiscal year (tentative budget) and distributes that statement not less than seven days prior to the date on which the annual school election is conducted, at which the tentative budget is voted upon. Notice of the annual election is published as required by statute with a first publication not less than forty-five days prior to the day of election.

If the qualified voters at the annual election approve the tentative budget, the Board of Education, by resolution, adopts the tentative budget of the School District for the ensuing year. In the event the tentative budget is disapproved by a majority of the voters, the Board of Education may call and hold a subsequent election on a budget. If no budget is approved, the Board of Education may levy a tax which includes debt service, in a like manner as if the same had been voted by the qualified voters, limited however by the provisions of Chapter 97 of the Laws of 2011 (See “The Tax Levy Limitation Law.”) The budget for the 2019-2020 fiscal year was approved by the voters of the District on May 15, 2018. The 2018-2019 tax levy is within the tax cap.

State Aid

The School District receives State aid for operating and other purposes at various times throughout its fiscal year, pursuant to formulas and payment schedules set forth by statute. In its 2019-2020 Adopted Budget, the School District expects to receive approximately 17% of its operating revenues in the form of State aid.

In addition to the amount of State Aid budgeted by the School District in its 2018-2019 fiscal year, the State is expected to make payments of STAR aid representing tax savings provided by school districts to their taxpayers under the STAR (see “*STAR-School Tax Exemption*”) Program in the 2018-2019 fiscal year.

There can be no assurance that the State appropriation for State aid to school districts will be continued in future years, either pursuant to existing formulas or in any form whatsoever. State aid appropriated and apportioned to the School District can be paid only if the State has such monies available therefor. The availability of such monies and the timeliness of such payment could be affected by a delay in the adoption of the State budget or State fiscal stress. In any event, State aid appropriated and apportioned to the School District can be paid only if the State has such monies available therefor.

The State is not constitutionally obligated to maintain or continue such State aid to the School District. No assurance can be given that present State aid levels will be maintained in the future. As such, State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the School District, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a reduction of expenditures.

Should the School District fail to receive State aid expected from the State in the amounts and at the times expected, occasioned by a delay in the payment of such monies and not by a cut in State aid, the School District is authorized by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of uncollected State aid.

Events Affecting State Aid to New York School Districts

Following a State budgetary crisis in 2009, State aid to school districts in the State decreased for a number of years with increases established in more recent years.

School district fiscal year (2013-2014): The State Legislature adopted the State budget on March 29, 2013. The budget included an increase of \$1.0 billion in State aid for school districts.

School district fiscal year (2014-2015): The State Legislature adopted the State budget on March 31, 2014. The budget included an increase of \$1.1 billion in State aid for school districts.

School district fiscal year (2015-2016): The State Legislature adopted the State budget on March 31, 2015. The budget included an increase of \$1.4 billion in State aid for school districts that was tied to changes in the teacher evaluation and tenure process. School districts were required to obtain approval of their revised teacher evaluation plans by November 15, 2015 in order to receive their allotted increase in State aid.

School district fiscal year (2016-2017): The State Legislature adopted the State budget on March 31, 2016. The budget included an increase of \$991 million in State aid for school districts over the 2015-16 budget, \$863 million of which consisted of traditional operating aid. In addition to the \$408 million of expense based aid, the State’s Adopted Budget included a \$266 million increase in Foundation Aid and a \$189 million restoration to the Gap Elimination Adjustment. The majority of the remaining increase related to (\$100 million) Community Schools Aid, a newly adopted aid category, to support school districts that wish to create community schools. The funds may only be used for certain purposes such as providing health, mental health and nutritional services to students and their families.

School district fiscal year (2017-2018): The State’s 2017-2018 Enacted Budget provides for school aid of approximately \$25.8 billion, an increase of \$1.1 billion in school aid spending from the 2016-2017 school year. The majority of the increases have been targeted to high need school districts. Expense-based aids to support school construction, pupil transportation, BOCES and special education were continued in full, as is the State’s usual practice. Transportation aid increased by 5.5% and building aid increased by 4.8%. The State’s 2017-18 Enacted Budget continues to link school aid increases for 2017-18 and 2018-19 to teacher and principal evaluation plans approved by September 1 of the current year in compliance with Education Law Section 3012-d. In addition, the State’s Enacted 2017-2018 Budget allows the Governor to reduce aid to school districts mid-year if receipts from the Federal government are less than what was expected. If federal support is reduced by \$850 million or more, the New York State Director of the Budget will develop a plan to make uniform spending reductions by the State. Such plan would take effect automatically unless the State Legislature passes its own plan within 90 days.

The District believes that it would mitigate the impact of any delays or the reduction in State aid by reducing expenditures, increasing revenues, appropriating other available funds on hand, and/or by any combination of the foregoing. (See also “*Market Factors Affecting Financing of the State and School Districts of the State*” herein).

School district fiscal year (2018-2019): On January 16, 2018, the Governor’s Proposed Budget was introduced. The budget recommends \$26.4 billion in school aid, which is an increase of \$769 million (3%) from the previous year. Also included is a proposed \$338 million increase in Foundation Aid, of which over 70% is expected to go to high-need districts. Included is a proposed increase of \$50 million for the funding of community schools, resulting in a total of \$200 million for the fiscal year. Important initiatives from prior years are also sustained, including the \$340 million Statewide Universal Full-day Pre-K program and the \$2 billion Smart Schools Bond Act.

School district fiscal year (2019-2020): For the 2019-20 school year, the State’s Enacted Budget includes a total of \$27.9 billion for School Aid, a year-to-year funding increase of approximately \$1.2 billion. The majority of the increases had been targeted to high need school districts. Expense-based aids to support school construction, pupil transportation, BOCES and special education will continue in full, as is the State’s usual practice. Transportation aid will increase by approximately 4.5% and building aid will increase by approximately 3.7%. The State 2019-2020 Enacted Budget continues to link school aid increases for 2019-2020 and 2020-2021 to teacher and principal evaluation plans approved by September 1 of the current year in compliance with Education Law Section 3012-d.

Gap Elimination Aid: The State provides annual State aid to school districts in the State, including the District, on the basis of various formulas. Due to the State’s own budgetary crisis in 2009 and to assist the State in mitigating the impacts of its own revenue shortfall, the State reduced the allocation of State aid to school districts as part of a program known as the Gap Elimination Adjustment (“GEA”). The GEA was a negative number (funds that were deducted from the State aid originally due to the District under then existing State aid formulas). The District’s State aid was reduced as a result of the GEA program starting in 2009. Subsequent State budgets decreased the amount of the GEA deduction and the Adopted Budget for the State’s 2016-2017 fiscal year eliminated the remaining balance of the GEA.

The Smart Schools Bond Act (the “SSBA”) was passed as part of the Enacted 2014-2015 State Budget. The Smart Schools Bond Act authorizes the issuance of \$2 billion of general obligation bonds by the State to finance improved educational technology and infrastructure to improve learning and opportunity for students throughout the State. The SSBA requires that a Review Board review and approve districts’ Smart Schools Investment Plan before any funds may be made available for the program.

School Facilities

<u>Name</u>	<u>Grades</u>	<u>Capacity</u>
Babylon Junior-Senior High School	7-12	1,360
Memorial Grade School	2-6	950
Elementary School	K-1	410

Enrollment Trends

<u>School Year</u>	<u>Enrollment</u>
2014-15	1,712
2015-16	1,608
2016-17	1,614
2017-18	1,591
2018-19	1,573
2019-20	1,561
2020-21 ¹⁾	1,572
2021-22 ¹⁾	1,579

(1) Projected.

Source: District estimates.

Employees

The School District provides services through employees whose union representation is as follows:

<u>No. of Employees</u>	<u>Union</u>	<u>Contract Expiration</u>
9	Babylon School Administrators' Association	June 30, 2019
162	Babylon Teachers' Association	June 30, 2021
21	Babylon Custodial Association	June 30, 2022
23	Babylon Clerical/Nursing Association	June 30, 2022

Employee Pension Benefits

New York State Certified (teachers and administrators) are members of the New York State Teachers Retirement System ("TRS"). Payments to the TRS are generally deducted from State aid payments. All non-certified employees of the School District eligible for pension or retirement benefits under the Retirement and Social Security Law of the State of New York are members of the New York State and Local Employee's Retirement System ("ERS"). Both the TRS and ERS (the "State Retirement System" or "SRS") are noncontributory with respect to members hired prior to July 1, 1976. All members of the respective systems that were hired on or after July 1, 1976 and before December 31, 2009, with less than 10 year's full-time service, contribute 3% of their gross annual salary toward the cost of retirement programs.

On December 10, 2009, then Governor Paterson signed into law a new Tier 5. The law is effective for new ERS and TRS employees hired after January 1, 2010. New Tier 5 ERS employees will now contribute 3% of their salaries and new Tier 5 TRS employees will contribute 3.5% of their salaries. There is no provision for these contributions to cease after a certain period of service.

On March 16, 2012, Governor Cuomo signed into law the new Tier 6 pension program, effective for new Tier 5 ERS and TRS employees hired after April 1, 2012. The Tier 6 legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 years to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Pension reform legislation enacted in 2003 and 2004 changed the cycle of ERS billing to match budget cycles of the School District. Under the previous method, the School District was unsure of how much it paid to the system until after its budget was implemented. Under the current method the contribution for a given fiscal year will be based on the value of the pension fund on the prior April 1 instead of the following April 1 so that the School District will be able to more accurately include the cost of the contribution into its budget. The reform legislation also (i) required the School District to make a minimum contribution of 4.5% of payroll every year, including years in which the investment performance of the fund would make a lower contribution possible and (ii) moved the annual payment date for contributions from December 15th to February 1st, effective December 15, 2004.

Due to poor performance of the investment portfolio of TRS and ERS during the recent financial crisis, the employer contribution rates for required pension payments to the TRS and ERS increased substantially. To help mitigate the impact of such increases, legislation was enacted that permitted school districts to amortize a portion of its annual employer pension

payment to the ERS only. Under such legislation, school districts that choose to amortize were required to set aside and reserve funds with the ERS for certain future rate increases. The District has not amortized any of its employer pension payments pursuant to this legislation and expects to continue to pay all payments in full when due.

In Spring 2013, the State and TRS approved a Stable Contribution Option (“SCO”) that gives school districts the ability to better manage the spikes in Actuarially Required Contribution rates (“ARCs”). ERS followed suit and modified its existing SCO, which was adopted in 2010. Each plan allows school districts to pay the SCO amount in lieu of the ARC amount, which is higher, and defer the difference in payment amounts as described below. For TRS, the 2013-14 SCO rate was 14%. For ERS, it was 12%.

The TRS SCO deferral plan is available to school districts for the next 7 years. Under the TRS SCO plan, payment of the deferred amount will commence in year six of the program (2018-19) and continue for five years. School districts can elect to no longer participate in the plan at any time, resume paying the ARC and begin repayment of deferred amounts over five years. Under the ERS SCO, payment of deferred amounts begins the year immediately following the deferral and the repayment period is 12 years. Once made, the election to participate in the ERS SCO is permanent. However, the school districts can choose not to defer payment in any given year. In both plans, interest on the deferred amounts is based on the yield of 10-year U.S. Treasury securities plus 1%.

The primary benefit of participation in the SCO plans is the elimination of the uncertainty in the volatility of future pension contribution ARCs in the near term, thereby providing school districts with significant assistance in its ability to create a stable and reliable fiscal plan. The District does not plan to participate in the TRS or ERS SCO program.

Payments by the School District to the Retirement Systems for the past five years are as follows:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2016	583,173	3,340,398
2017	563,980	2,696,435
2018	598,623	2,501,589
2019	606,453	2,134,365
2020 (Budget)	874,919	2,173,747

Other Post Employment Benefits

The District implemented GASB Statement No. 75 (“GASB 75”) of the Governmental Accounting Standards Board (“GASB”), which replaces GASB Statement No. 45 as of fiscal year ended June 30, 2018. GASB 75 requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits, known as other post-employment benefits (“OPEB”). GASB 75 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB similarly to GASB Statement No. 68 reporting requirements for pensions.

GASB 75 requires state and local governments to measure a defined benefit OPEB plan as the portion of the present value of projected benefit payments to be provided to current active and inactive employees, attributable to past periods of service in order to calculate the total OPEB liability. Total OPEB liability generally is required to be determined through an actuarial valuation using a measurement date that is no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year.

GASB 75 requires that most changes in the OPEB liability be included in OPEB expense in the period of the changes. Based on the results of an actuarial valuation, certain changes in the OPEB liability are required to be included in OPEB expense over current and future years.

The District’s total OPEB liability as of June 30, 2018 was \$73,899,172 using a discount rate of 3.00% and actuarial assumptions and other inputs as described in the District’s June 30, 2018 audited financial statements.

Should the District be required to fund the total OPEB liability, it could have a material adverse impact upon the District’s finances and could force the District to reduce services, raise taxes or both. At the present time, however, there is no current or planned requirement for the District to partially fund its OPEB liability.

At this time, New York State has not developed guidelines for the creation and use of irrevocable trusts for the funding of OPEB. As a result, the District will continue funding this expenditure on a pay-as-you-go basis.

Legislation has been introduced from time to time to create an optional investment pool to help the State and local governments fund retiree health insurance and OPEB. Such proposed legislation would generally authorize the creation of irrevocable OPEB trusts so that the State and its local governments can help fund their OPEB liabilities, establish an OPEB investment fund in the sole custody of the State Comptroller for the investment of OPEB assets of the State and participating eligible local governments, designate the president of the Civil Service Commission as the trustee of the State's OPEB trust and the governing boards as trustee for local governments and allow school districts to transfer certain excess reserve balances to an OPEB trust once it is established. Under the proposals, there would be no limits on how much a local government can deposit into the trust. The District cannot predict whether such legislation will be enacted into law in the foreseeable future.

Unemployment Rate Statistics

Unemployment statistics are not available for the District as such. The information set forth below with respect to the County of Suffolk is included for information purposes only. It should not be implied from the inclusion of such data in this Official Statement that the County is necessarily representative of the District, or vice versa.

	<u>Year Average</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Suffolk County	5.4%	4.7%	4.4%	4.5%	3.9%
New York State	6.3%	5.3%	4.9%	4.7%	4.1%

	<u>2019 Monthly Figures</u>					
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
Suffolk County	4.2%	3.9%	3.7%	3.1%	3.2%	3.1%
New York State	4.6%	4.4%	4.1%	3.6%	3.8%	3.8%

Source: State of New York, Department of Labor. (Note: Figures not seasonally adjusted).

Other Information

The statutory authority for the power to spend money for the object or purpose, or to accomplish the object or purpose, for which the Notes are to be issued is the Education Law and the Local Finance Law.

This Official Statement does not include the financial data of any political subdivision having power to levy taxes within the School District except the information included in the section entitled "Estimated Overlapping Indebtedness".

No principal or interest upon any obligation of the School District is past due.

The fiscal year of the School District is July 1 to June 30.

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FINANCIAL INFORMATION

Revenues, Expenditures and Fund Balance - General Fund

School District finances are operated primarily through its General Fund. All taxes and most other revenues are paid into this fund and all current operating expenditures are made from it. (A statement of such revenues and expenditures for the five year period ending June 30, 2018 is contained in the Appendix B). The School District also has the following funds: School lunch, Trust and Agency, and Special Aid.

Financial Statements

The School District retains Independent Certified Public Accountants. The last audited report covers the period ending June 30, 2017 and is available upon request. In addition, the State Comptroller's office, Department of Audit and Control, periodically performs a compliance review to ascertain whether the School District has complied with the requirements of various State and Federal statutes.

Investment Policy

The School District investment policies are governed by State statutes. The School District has adopted its own written investment policy which provides for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The School District is authorized to use demand accounts, savings accounts, money market accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies and obligations of New York State or its political subdivisions.

Collateral is required for demand, savings and certificates of deposit at 100% of all deposits not covered by federal deposit insurance. The District has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

The School District's policy does not permit the School District to invest in so-called derivatives or reverse repurchase agreements and the School District has never invested in derivatives or reverse repurchase agreements.

TAX INFORMATION

Valuations

Year Ending June 30:	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Taxable Assessed Valuation:	\$18,295,379	\$18,331,500	\$18,347,795	\$18,420,173	\$18,606,816
New York State Equalization Rate:	1.19%	1.18%	1.12%	1.07%	0.97%
Full Valuation:	\$1,537,426,807	\$1,553,516,949	\$1,638,195,982	\$1,721,511,495	\$1,918,228
Tax Levy: ¹	\$37,446,077	\$38,558,225	\$39,085,906	\$40,517,723	\$41,815,264
Tax Rate Per \$1,000 Assessed Valuation:	\$2,046.75	\$2,103.39	\$2,130.28	\$2,199.64	\$2,247.31
Uncollected Taxes: ²	None	None	None	None	None

¹ General Fund.

² Represents amounts uncollected by the School District at the end of each fiscal year. See "Tax Collection Procedure".

Tax Limit

The Constitution does not limit the amount that may be raised by the District-wide tax levy on real estate in any fiscal year. However, the Tax Levy Limit Law imposes a statutory limit on the amount of real property taxes that a school district may levy. (See *"The Tax Levy Limit Law"* herein). (See also *"Nature of Obligation"* herein).

The Tax Levy Limit Law

Chapter 97 of the Laws of 2011, as amended (herein referred to as the "Tax Levy Limit Law" or "Law") modified existing law by imposing a limit on the amount of real property taxes that a school district may levy.

Prior to the enactment of the Law, there was no statutory limitation on the amount of real property taxes that a school district could levy if its budget had been approved by a simple majority of its voters. In the event the budget had been defeated by the voters, the school district was required to adopt a contingency budget. Under a contingency budget, school budget increases were limited to the lesser of four percent (4%) of the prior year's budget or one hundred twenty percent (120%) of the consumer price index ("CPI").

Under the Tax Levy Limit Law, there is now a limitation on the amount of tax levy growth from one fiscal year to the next. Such limitation is the lesser of (i) 2% or (ii) the annual percentage increase in the consumer price index, subject to certain exclusions as mentioned below and as described in the Law. A budget with a tax levy that does not exceed such limit will require approval by at least 50% of the voters. Approval by at least 60% of the voters will be required for a budget with a tax levy in excess of the limit. In the event the voters reject the budget, the tax levy for the school district's budget for the ensuing fiscal year may not exceed the amount of the tax levy for the prior fiscal year. School districts will be permitted to carry forward a certain portion of their unused tax levy limitation from a prior year.

The Law permits certain significant exclusions to the tax levy limit for school districts. These include taxes to pay the local share of debt service on bonds or notes issued to finance voter approved capital expenditures and the refinancing or refunding of such bonds or notes, certain pension cost increases, and other items enumerated in the Law. However, such exclusion does NOT apply to taxes to pay debt service on tax anticipation notes, revenue anticipation notes, budget notes and deficiency notes; and any obligations issued to finance deficits and certain judgments, including tax certiorari refund payments. (See also *"Nature of Obligation"* herein).

Real Property Tax Rebate

Chapter 59 of the Laws of 2014 ("Chapter 59") included provisions which provided a refundable personal income tax credit to real property taxpayers in school districts in 2014 and 2015 and certain municipal units of government in 2015 and 2016. The eligibility of real property taxpayers for the tax credit in each year depended on such jurisdiction's compliance with the provisions of the Tax Levy Limitation Law. For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers was additionally contingent upon adoption by the school district or municipal unit of a State approved "government efficiency plan" which demonstrated three year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies.

Chapter 20 of the Laws of 2015 ("Chapter 20") introduced a new real property tax rebate program that provides state-financed tax rebate checks and credits to taxpayers who are eligible for the STAR exemption in the years 2016-2019. For 2016, eligible taxpayers who resided outside New York City but within the Metropolitan Commuter Transportation District ("MCTD") received \$130, and eligible taxpayers who resided outside the MCTD received \$185. Credits in 2017-2019 will vary based on a taxpayer's personal income level and STAR tax savings. Similar to the Chapter 59 real property tax credit, under Chapter 20 the eligibility of real property taxpayers in each year depends on the school district's compliance with the provisions of the Tax Levy Limitation Law. Unlike Chapter 59, however, for taxpayers other than those living in one of the "Big 4" cities only the compliance of the school district in which the taxpayer resides is relevant. Municipal compliance with the Tax Levy Limitation Law is only required in the case of the "Big 4" cities that have fiscally dependent school districts. In such cases, the joint school/city levy must remain in compliance with the Tax Levy Limitation Law. In either scenario, the relevant jurisdiction (independent school district or joint city/school district) must certify its compliance with the provisions of Chapter 97.

While the provisions of Chapter 59 did not, and the provisions of Chapter 20 do not, directly further restrict the taxing power of the affected municipalities, school districts and special districts, Chapter 59 did, and Chapter 20 does, provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limitation Law.

Tax Collection Procedure

Property taxes for the District, together with Town and County taxes are collected by the Town Tax Receiver. Such taxes are due and payable in equal installments on December 1 and May 10, but may be paid without penalty by January 10 and May 31, respectively. Penalties on unpaid taxes are 1% per month from the date such taxes are due and payable and 10% after May 31.

The District receives its full levy before the end of its fiscal year. Uncollected amounts are not segregated by the Town Tax Receiver, and any deficiency in tax collection is the County's liability.

STAR - School Tax Exemption

The STAR (School Tax Relief) program provides State-funded exemptions from school property taxes to homeowners for their primary residences. School districts are reimbursed in full by the State for real property taxes exempted pursuant to the STAR program.

Approximately 7.3% of the School District’s 2019-2020 school tax levy is expected to be exempted by the STAR program and the District has received full reimbursement of 2018-2019 exempt taxes from the State. The School District anticipates that it will receive full reimbursement of such exempt taxes in the 2019-2020 fiscal year.

Larger Taxpayers

<u>Name</u>	<u>Type</u>	<u>2018-2019 Assessed Valuation</u>
PSEG Long Island	Public Utility	\$233,399
David I. Schachne & M. Broxmeyer	Apartments	140,020
National Grid	Public Utility	111,956
Fairfield Court LLC	Apartments	89,200
Len Realty Co.	Apartments	84,000
494 Fire Island Ave LLC	Commercial	50,080
West Babylon Associates	Commercial	49,500
369 Little East Neck Road Inc.	Commercial	46,700
Cardio Realty LLC	Commercial	41,200
Fairfield Babylon Harbor LLC	Apartments	<u>39,850</u>
		<u>\$885,905</u>

STATUS OF INDEBTEDNESS

Constitutional Requirements

The New York State Constitution limits the power of the School District (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations in summary form, and as generally applicable to the School District and the Notes, include the following:

Purpose and Pledge. The School District shall not give or lend any money or property to or in aid of any individual or private corporation or private undertaking or give or lend its credit to or in aid of any of the foregoing or any public corporation.

The School District may contract indebtedness only for a School District purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute; no installment may be more than fifty per centum in excess of the smallest prior installment unless the School District determines to issue debt amortizing on the basis of substantially level or declining

annual debt service. The School District is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and such required annual installments on its notes.

Statutory Procedure

In general, the State Legislature has authorized the powers and procedure for the School District to borrow and incur indebtedness by the enactment of the Local Finance Law subject to the constitutional provisions set forth above. The power to spend money, however, generally derives from other law, including the Education Law.

Bond resolutions adopted by the Board of Education, except those to finance judgments, may not be adopted unless a proposition approving the financed capital project shall have been approved prior thereto at a special or annual school district election held in accordance with the Education Law.

Debt Limit. Pursuant to the Local Finance Law, the School District has the power to contract indebtedness for any school district purpose authorized by the Legislature of the State of New York, provided the aggregate principal amount thereof shall not exceed ten per centum (10%) of the full valuation of the taxable real estate of the School District and subject to certain enumerated deductions such as State aid for building purposes. The statutory method for determining full valuation is by taking the assessed valuation of taxable real estate for the last completed assessment roll and applying thereto the ratio (equalization rate) which such assessed valuation bears to the full valuation; such ratio is determined by the State Office of Real Property Services. The Legislature also is required to prescribe the manner by which such ratio shall be determined by such authority.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) Such obligations are authorized for a purpose for which the School District is not authorized to expend money,
- or, (2) There has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations
- and an action contesting such validity, is commenced within twenty days after the date of such publication,
- or, (3) Such obligations are authorized in violation of the provisions of the Constitution.

It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement. This procedure is not applicable to budget, tax or revenue anticipation notes.

The Board of Education, as the finance board of the School District, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may delegate the power to sell the obligations to the President of the Board of Education.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first of such notes and provided that such renewals do not exceed five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the School District with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

Debt Outstanding End of Fiscal Year

Year Ending June 30:	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Bonds	\$23,260,000	\$21,385,000	\$33,050,000	\$30,320,000	\$27,495,000
Bond Anticipation Notes	<u>3,025,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Debt Outstanding	\$14,410,000	\$23,260,000	\$21,385,000	\$33,050,000	\$27,495,000

Details of Outstanding Indebtedness

The following table sets forth the bond and note indebtedness of the School District as October 3, 2018.

	<u>Maturity</u>	<u>Amount</u>
Bonds	2019-2032	\$27,495,000
Bond Anticipation Notes		<u>0</u>
Total Debt Outstanding		\$27,495,000

Lease Financing Obligations

The following is a summary of the District’s lease financing obligations.

	<u>Issue</u>	<u>Final</u>	<u>Interest</u>	<u>Principal Amount</u>
<u>Description of Issue</u>	<u>Year</u>	<u>Maturity</u>	<u>Rate</u>	<u>Outstanding at</u>
Energy Performance Contract	2009	2024	4.84%	<u>June 30, 2018</u>
				\$1,914,673

Capital Project Plans

The District currently has \$13,600,000 authorized but unissued debt remaining.

Summary of Debt Limit

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin as of September 10, 2019.

Full Valuation of Taxable Real Property	<u>\$1,918,228,454</u>
Debt Limit.... 10% thereof	191,822,845
<u>Indebtedness:</u> ¹	
Bonds	27,495,000
Less: State Building Aid Estimate ²	<u>0</u>
Net Indebtedness	<u>27,495,000</u>
Net Debt-Contracting Margin	<u>\$164,327,845</u>
Percentage of Debt Contracting Power Exhausted.....	14.33%

¹ The Local Finance Law does not provide for the inclusion of tax anticipation or revenue anticipation notes in the computation of the statutory debt limit of the School District.

² No deduction has been taken for State aid for building purposes. However, the School District receives New York State Building Aid in an approximate amount of 51% of eligible debt service on its existing indebtedness contracted for school building purposes pursuant to Section 121.20 of the Local Finance Law.

Debt Ratios

The following table sets forth certain ratios relating to the District's indebtedness as of September 10, 2019.

	<u>Amount</u>	<u>Per Capita</u> ¹	<u>Percentage of Full Value</u> ²
Gross Indebtedness (see Computation of Debt Limit)	\$27,495,000	\$2,259.98	1.60%

¹The estimated population of the District is 12,166.

²The District's full value of taxable real estate for 2017-18 is \$1,721,511,495.

Tax Anticipation Notes

The following is a history of the School District's tax anticipation note borrowings since the 2014-2015 fiscal year. The School District has not found it necessary to borrow in anticipation of other revenues during this period.

<u>Fiscal Year</u>	<u>Amount</u>	<u>Type</u>	<u>Amount Outstanding End of Fiscal Year</u>
2014-15	\$7,000,000	TAN	0
2015-16	7,000,000	TAN	0
2016-17	7,000,000	TAN	0
2017-18	7,000,000	TAN	0
2018-19	7,000,000	TAN	0
2019-20 (Projected)	7,000,000	TAN	N/A

Estimated Overlapping Indebtedness

In addition to the School District, the following political subdivisions have the power to issue bonds and to levy taxes on taxable real property in the School District.

<u>Unit</u>	<u>Outstanding Indebtedness</u>	<u>District's Share</u>	<u>Net Indebtedness</u>
County of Suffolk	\$2,268,261,598	0.63%	\$14,290,048
Babylon Town	169,688,000	7.3%	12,387,224
Babylon Village	6,686,099	90%	6,017,489

Source: State Comptrollers' Special Report on Municipal Affairs for local fiscal year ending in 2017.

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Bond Principal and Interest Maturity Table

The following table sets forth all fiscal year principal and interest payments required on all outstanding long-term bond indebtedness of the District. The table does not exclude any payments that may have been made in the current fiscal year.

Fiscal Year Ending June 30th	Principal	Interest	Total Principal & Interest
2020	\$2,940,000	\$883,414	\$3,823,414
2021	3,045,000	784,012	3,829,012
2022	3,160,000	674,863	3,834,863
2023	2,020,000	565,125	2,585,125
2024	2,085,000	504,526	2,589,526
2025	2,155,000	435,476	2,590,476
2026	1,870,000	364,025	2,234,025
2027	1,920,000	307,925	2,227,925
2028	1,980,000	250,325	2,230,325
2029	2,040,000	190,925	2,230,925
2030	2,100,000	129,725	2,229,725
2031	1,075,000	65,400	1,140,400
2032	1,105,000	33,150	1,138,150
Totals	<u>\$27,495,000</u>	<u>\$5,188,891</u>	<u>\$32,683,891</u>

INVESTMENT POLICY

Pursuant to the general municipal law, the School District is permitted to temporarily invest moneys which are not required for immediate expenditures, with the exception of moneys the investment of which is otherwise provided for by law, in the following investments: (1) special time deposit accounts in, or certificates of deposit issued by, a bank or trust company located and authorized to do business in the State, provided however, that such time deposit account or certificate of deposit is payable within such time as the proceeds shall be needed to meet the expenditures for which such moneys were obtained and provided further that such time deposit account or certificate of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by a pledge of eligible securities as such terms is defined in the law; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the State Comptroller, tax anticipation notes or revenue anticipation notes issued by any municipality, school district or district corporation other than the School District; (6) certificates of participation issued by political subdivisions of the State, as those terms are defined in the law; (7) obligations of a New York public corporation which are made lawful investments for the School District pursuant to the enabling laws of such public corporation; or (8) in the case of moneys held in certain reserve funds established by the School District pursuant to law, in obligations of the School District. Any investments made by the School District pursuant to law are required to be payable or redeemable at the option of the School District within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. These statutes also require that the School District's investments, unless registered or inscribed in the name of the School District, must be purchased through, delivered to and held in custody of a bank or trust company in the State. All such investments held in the custody of a bank or trust company must be held pursuant to a written custodial agreement as that term is defined in the law. Collateral is required for demand deposit, money market accounts and certificates of deposit not covered by Federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities and school districts.

End of Appendix A

APPENDIX B

FINANCIAL STATEMENT SUMMARIES

And

CASH FLOWS

**Babylon Union Free School District
Revenues, Expenditures and Fund Balance
General Fund**

APPENDIX B

Year Ended June 30:	2014	2015	2016	2017	2018
REVENUES					
Real Property Taxes	\$32,500,725	\$33,129,129	\$34,134,050	\$34,839,972	\$36,387,318
Other Tax Items	4,400,413	4,316,965	4,424,192	4,245,955	4,147,996
Charges for Services	300,003	301,358	242,617	205,532	191,053
Use of Money and Property	16,403	12,656	10,688	12,717	17,627
Sale of Property and Compensation for Loss	836	9,748	2,174	377	314
Miscellaneous	549,907	527,604	575,465	597,123	549,086
Medicaid Reimbursement	0	0	0	0	0
Federal Sources	3,605	0	47,327	0	0
State Sources	7,545,560	7,804,387	8,082,496	8,581,702	8,917,146
Total Revenues	45,317,452	46,101,847	47,519,009	48,483,378	50,210,540
EXPENDITURES					
General Support	4,517,396	4,517,534	4,588,319	5,059,537	4,878,978
Instruction	26,070,433	26,394,132	28,121,949	28,348,209	28,574,984
Pupil Transportation	2,100,242	2,131,427	2,103,192	2,210,133	2,147,262
Employee Benefits	9,539,425	9,977,924	9,634,364	10,194,792	9,760,751
Debt Service	1,986,510	2,036,454	3,075,540	3,107,685	4,263,647
Total Expenditures	44,214,006	45,057,471	47,523,364	48,920,356	49,625,622
Excess (Deficiency) of Revenues Over Expenditures	1,103,446	1,044,376	(4,355)	(436,978)	584,918
Other Financing Sources (Uses):					
Premium on TAN	0	0	0	0	0
Operating Transfers In	0	0	0	17,481	
Operating Transfers (Out)	(292,162)	(88,126)	(115,974)	(131,193)	(140,718)
Total Other Financing Sources (Uses)	(292,162)	(88,126)	(115,974)	(113,712)	(140,718)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	811,284	956,250	(120,329)	(550,690)	444,200
Fund Balance - Beginning of Year	6,968,623	7,779,907	8,736,157	8,615,828	8,065,138
Adjustment to Fund Balance	0	0	0	0	0
Fund Balances - End of Year	\$7,779,907	\$8,736,157	\$8,615,828	\$8,065,138	\$8,509,338

Source: Information for this appendix has been extracted from the audited financial statements of the Babylon Union Free School District. This summary itself has not been audited. Reference should be made to the complete audit reports on file at the School District office.

**Babylon Union Free School District
General Fund Budget**

APPENDIX B-1

	2017-2018 Adopted Budget [1]	2019-2020 Adopted Budget [2]
<u>REVENUES</u>		
Real Property Taxes (Inc. STAR)	\$40,517,723	\$42,706,928
State Sources	9,074,862	9,885,740
Other Revenue	878,264	657,988
Appropriated Fund Balance	<u>1,200,000</u>	<u>1,600,000</u>
 Total Revenues	 <u><u>\$51,670,849</u></u>	 <u><u>\$54,850,656</u></u>
 <u>EXPENDITURES</u>		
General Support	\$5,094,193	\$5,755,171
Instruction	29,377,708	30,774,148
Pupil Transportation	2,446,050	2,534,782
Employee Benefits	10,326,688	11,382,149
Transfers	125,000	135,000
Debt Service	<u>4,301,210</u>	<u>4,269,406</u>
 Total Expenditures	 <u><u>\$51,670,849</u></u>	 <u><u>\$54,850,656</u></u>

[1] The budget for the 201-2018 fiscal year was approved by voters of the District on May 16, 2017.

[2] The budget for the 2019-2020 fiscal year was approved by voters of the District on May 21, 2019.

Source: Annual budget of the Babylon Union Free School District.

**Babylon Union Free School District
Balance Sheets - General Fund**

APPENDIX B-2

As of June 30:	<u>2017</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and Equivalents	\$9,848,756	\$9,456,211
Receivables:		
Due from Other Governments	192,402	194,063
Due from Other Funds	1,597,887	2,017,659
Accounts Receivable	15,096	17,194
Due from state and federal	<u>1,097,165</u>	<u>1,155,196</u>
TOTAL ASSETS	<u><u>\$12,751,306</u></u>	<u><u>\$12,840,323</u></u>
 <u>LIABILITIES</u>		
Accounts Payable	\$1,380,865	\$1,442,378
Accrued Liabilities	271,394	285,354
Due to Teachers' Retirement System	2,500,505	2,134,365
Due to Employees' Retirement System	163,352	154,844
Due to other funds	0	0
Compensated Absences Payable	177,650	121,824
Deferred Revenue	<u>192,402</u>	<u>192,220</u>
TOTAL LIABILITIES	<u>4,686,168</u>	<u>4,330,985</u>
 <u>FUND BALANCE</u>		
Fund Balances:		
Nonspendable	0	0
Restricted	4,911,800	5,178,421
Assigned	1,285,399	1,209,493
Unassigned	<u>1,867,939</u>	<u>2,121,424</u>
TOTAL FUND BALANCES	<u>8,065,138</u>	<u>8,509,338</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$12,751,306</u></u>	<u><u>\$12,840,323</u></u>

Source: Information for this appendix has been extracted from the audited financial statements of the Babylon Union Free School District. This summary itself has not been audited. Reference should be made to the complete audit reports on file at the School District office.

2018-2019 Cash Flow

2018-2019 Monthly Cash Flow
Actual

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Total
Balance (beg. of month)(1)	9,456,211	7,463,085	5,396,538	9,745,558	6,649,929	2,879,262	34,425	17,546,124	12,164,312	13,847,211	10,768,920	10,738,540	106,690,114
Receipts:													
Property Taxes (2)	0	0	0	0	0	494,797	19,586,070	1,422,713	395,662	587,858	4,853,742	12,905,930	40,246,773
STAR Reimbursement	0	0	0	0	0	0	3,446,965	0	381,269	0	0	0	3,828,234
State Aid	0	671,354	892,733	572,650	58,763	391,052	0	46,340	2,934,313	0	0	0	5,567,204
Other Receipts	58,258	42,412	68,118	107,957	211,105	80,856	1,165,909	95,044	1,231,901	82,724	117,357	923,848	4,185,488
Interfund Transfers	111,067	90,071	185,761	10,735	21,106	1,535,033	71,452	898,426	59,676	58,927	16,461	21,292	3,080,007
TAN Proceeds	0	0	7,000,000	0	0	0	0	0	0	0	0	0	7,000,000
Total Receipts	169,325	803,838	8,146,612	691,342	290,973	2,501,739	24,270,396	2,462,522	5,002,822	729,509	4,987,560	13,851,070	63,907,707
Balance and Receipts	9,625,536	8,266,922	13,543,149	10,436,900	6,940,902	5,381,001	24,304,821	20,008,646	17,167,134	14,576,720	15,756,479	24,589,610	170,597,821
Disbursements:													
Salaries and Benefits	463,923	710,611	2,311,424	2,133,010	2,268,178	3,191,053	2,270,668	2,229,167	2,108,855	2,192,168	2,216,943	5,893,958	27,989,957
Operating Expenses	1,540,209	1,716,156	1,327,848	1,495,641	1,635,143	1,656,967	4,329,709	4,136,549	1,052,749	1,137,368	2,642,676	857,233	23,528,248
Debt Service	0	285,298	0	0	0	340,238	0	1,320,298	0	319,944	0	1,991,404	4,257,182
Library Taxes	158,320	158,320	158,320	158,320	158,320	158,320	158,320	158,320	158,320	158,320	158,320	158,320	1,899,835
TAN Set Aside	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
TAN Interest	0	0	0	0	0	0	0	0	0	0	0	141,167	141,167
Total Disbursements	2,162,451	2,870,385	3,797,591	3,786,971	4,061,640	5,346,576	6,758,697	7,844,334	3,319,923	3,807,800	5,017,939	16,042,082	64,816,389
Balance (end of month)	7,463,085	5,396,538	9,745,558	6,649,929	2,879,262	34,425	17,546,124	12,164,312	13,847,211	10,768,920	10,738,540	8,547,529	105,781,432

(1) Includes certain restricted reserves of \$4,284,685.

(2) Inclusive of Library Taxes.

TAN Set Aside (Payment)

Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Receipts	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
Disbursements	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
Balance	0	0	0	0	0	0	0	0	0	0	0	0	0

2019-2020 Cash Flow

2019-2020 Monthly Cash Flow
Projected

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Total
Balance (beg. of month)(1)	8,547,529	7,024,623	4,588,873	9,351,898	5,579,133	1,658,299	608,392	18,438,486	14,642,034	16,079,155	12,756,165	10,599,023	109,873,610
Receipts:													
Property Taxes (2)	0	0	0	0	0	254,061	22,569,105	2,964,048	381,092	508,122	2,964,048	12,703,061	42,343,537
STAR Reimbursement	0	0	0	0	0	0	3,118,506	0	0	0	0	0	3,118,506
State Aid	564,513	218,278	1,482,788	105,376	97,849	489,245	143,010	263,439	3,236,542	0	0	925,801	7,526,841
Other Receipts	63,258	47,412	73,118	112,957	216,105	85,856	1,170,909	100,044	1,236,901	87,724	122,357	928,848	4,245,488
Interfund Transfers	115,067	94,071	189,761	14,735	25,106	1,539,033	75,452	902,426	63,676	62,927	20,461	25,292	3,128,007
TAN Proceeds	0	0	7,000,000	0	0	0	0	0	0	0	0	0	7,000,000
Total Receipts	742,838	359,762	8,745,666	233,068	339,060	2,368,195	27,076,983	4,229,957	4,918,211	658,773	3,106,865	14,583,002	67,362,380
Balance and Receipts	9,290,367	7,384,385	13,334,539	9,584,966	5,918,192	4,026,495	27,685,374	22,668,443	19,560,245	16,737,928	15,863,030	25,182,026	177,235,990
Disbursements:													
Salaries and Benefits	487,119	746,141	2,426,995	2,239,660	2,381,587	2,245,519	3,489,288	2,340,625	2,214,298	2,301,777	2,327,790	6,188,656	29,389,455
Operating Expenses	1,617,219	1,801,964	1,394,240	1,570,423	1,716,900	689,815	5,596,194	4,343,377	1,105,386	1,194,237	2,774,810	900,095	24,704,660
Debt Service	0	86,000	0	34,344	0	321,363	0	1,181,000	0	324,344	0	1,876,363	3,823,413
Library Taxes	161,406	161,406	161,406	161,406	161,406	161,406	161,406	161,406	161,406	161,406	161,406	161,406	1,936,875
TAN Set Aside	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
TAN Interest	0	0	0	0	0	0	0	0	0	0	0	120,000	120,000
Total Disbursements	2,265,745	2,795,511	3,982,641	4,005,833	4,259,893	3,418,103	9,246,889	8,026,408	3,481,090	3,981,764	5,264,006	16,246,520	66,974,403
Balance (end of month)	7,024,623	4,588,873	9,351,898	5,579,133	1,658,299	608,392	18,438,486	14,642,034	16,079,155	12,756,165	10,599,023	8,935,506	110,261,587

(1) Includes certain restricted reserves of approximately \$4,000,000.

(2) Inclusive of Library Taxes.

TAN Set Aside (Payment)

Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
Receipts	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
Disbursements	0	0	0	0	0	0	0	0	0	0	0	7,000,000	7,000,000
Balance	0	0	0	0	0	0	0	0	0	0	0	0	0

APPENDIX C

**AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Can be accessed on the Electronic Municipal Market Access (“EMMA”) website
of the Municipal Securities Rulemaking Board (“MSRB”)
at the following link:**

<https://emma.msrb.org/ER1174344-ER917921-ER1318450.pdf>

**The audited financial statements referenced above are hereby incorporated into the attached
Official Statement.**

*** Such Financial Statements and opinion are intended to be representative only as of the date
thereof. Cullen & Danowski, LLP has not been requested by the District to further review and/or
update such Financial Statements or opinion in connection with the preparation and dissemination
of this Official Statement.**

APPENDIX D

FORM OF LEGAL OPINION

Babylon Union Free School District,
County of Suffolk,
State of New York

Re: Babylon Union Free School District, Suffolk County, New York
\$7,000,000 Tax Anticipation Notes, 2019

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of \$7,000,000 Tax Anticipation Notes, 2019 (the "Obligations"), of the Babylon Union Free School District, County of Suffolk, State of New York (the "Obligor"), dated September 26, 2019, and maturing June 19, 2020, numbered ___, of the denomination of \$_____, bearing interest at the rate of _____% (per annum).

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986, including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code");
- (3) an arbitrage certificate executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligations that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligations not to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligations and investment earnings thereon, making required payments to the Federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligations to be includable in the gross income of the owners thereof for Federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligations and investment earnings thereon on certain specified purposes (the "Arbitrage Certificate"); and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or resolution applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligation, including the form of the Obligation. In rendering the opinions expressed herein we have assumed (i) the accuracy

and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or certified by public officials acting within the scope of their official capacities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Arbitrage Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligations have been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitute valid and legally binding general obligations of the Obligor, all the taxable real property within which is subject to the levy of ad valorem taxes to pay the Obligations and interest thereon, subject to applicable statutory limitations; provided, however, that the enforceability (but not the validity) of the Obligations: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the Federal government affecting the enforcement of creditors' rights, and (ii) may be subject to the exercise of judicial discretion in appropriate cases.
- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligations; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said State or the Federal government affecting the enforcement of creditors' rights.
- (c) Interest on the Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). Interest on the Obligations is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Obligations.

Certain agreements, requirements and procedures contained or referred to in the Arbitrage Certificate and other relevant documents may be changed and certain actions (including, without limitation, economic defeasance of the Obligations) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Accordingly, this opinion is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Obligations has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance

with all covenants and agreements contained in the Arbitrage Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Obligations to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Obligations and the Arbitrage Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations such as the Obligor in the State of New York. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, or waiver provisions contained in the foregoing documents.

The scope of our engagement in relation to the issuance of the Obligations has extended solely to the examination of the facts and law incident to rendering the opinions expressed herein. Such opinions are not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligations as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligations for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligations, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

Very truly yours,
Orrick, Herrington & Sutcliffe LLP