Calaveras County Taxpayers Association
<u>Report on Measure K</u>
($18 million school bond)
October 29, 2008

<u>Executive Summary</u>

Measure K seeks to issue $18 million in general obligations bonds with maturities of at least 25 years and possibly 40 years for the Bret Harte Union High School District. Bond proceeds are to be used for many capital intensive projects outlined below.

A list of potentially necessary projects includes:
- 10 new classrooms (4 science, 2 special education, 4 standard)
- Renovation of four (4) existing science classrooms to standard classrooms
- Removal of eight (8) portable classrooms
- Upgrade and replacement of HVAC systems
- Install deck covering at John Vierra
- Relocation of Vallecito HS

  The total cost of these projects is estimated at $4,865,000, but $1,566,180 of State Modernization and New Construction grants should be available toward these costs.

A list of unnecessary, though desirable, projects includes:
- Aquatic Center for student use and open to the entire community throughout the year
- Relevel and resurface the playfields due to drainage and safety concerns
- Copperopolis minimum essential high school or joint-use facility
- The Community at Large Priorities Survey of staff and community respondents ranked these three projects the least important (#s 9-12 out of 12)

  The total cost of these projects is estimated at $4,665,000. Taxpayers should be aware these are not educational necessities, and funding sources other than taxes might exist such as voluntary donations, fundraising, and use fees

A list of potentially disadvantageous projects includes:
- Construct a second set of 10 standard classrooms despite low enrollment projections
- Refinance $6.2 million of Certificates of Participation and $600,000 of other long term liabilities

  The total cost of these items is estimated at $9,300,000.

The District is not required to issue all the bonds at once, but rather may issue them as projects are undertaken.

Measure K

Measure K proposes to voters within the Bret Harte Unified High School District the issuance of $18 million in general obligation bonds for purposes of expansion, maintenance and upgrades. The text of Measure K reads:

> To improve the quality of education and job training, shall Bret Harte Union High School District issue $18,000,000 in bonds at legal rates to construct, improve and equip schools, sites buildings, joint-use facilities, restrooms, install energy efficient HVAC systems, replace aging temporary classrooms, improve science labs, classrooms, grounds, fields and facilities for student and community use, with mandatory financial audits, independent citizen oversight, and no money for administrators' salaries?

The 2008 Facility Master Plan, prepared by California Financial Services and SchoolWorks, Inc., lists the following cost estimates and projects proposed by the District for the bond proceeds of Measure K.

PRELIMINARY PROJECT LIST	LOCATION		CONCEPTUAL COST ESTIMATES
Construct 4 new science CR's, 2 special ed CR's and 4 standard CR's	Bret Harte		2,500,000
Renovate 4 existing science CR's to standard	Bret Harte		192,000
Remove 8 portable CR's	Bret Harte		500,000
HVAC	District-wide		1,415,000
Aquatic Center	Bret Harte		2,400,000
Upgrade Playfields/ADA Issues	Bret Harte		1,265,000
Minimum essential HS/Copperopolis-Joint Use	Copperopolis		1,000,000
Future classrooms/Copperopolis	Copperopolis		2,500,000
Enhance and/or relocate school programs to better serve the educatinals needs of our students	Bret Harte		250,000
Prior Capital facility construction expenditures	District-wide		6,800,000
Deck covering at JVHS	VHS		8,000

Total Estimated Cost	18,830,000

The Facility Master Plan lists State matching funds of $964,920 for New Construction and $601,260 for Modernization as shown below. These figures when added to the $18 million bond proceeds provide enough money to cover the estimated $18,830,000 in projects.

As of March 31, 2008 (in 2008 dollars)

Anticipated Sources

Fund 25 Capital Facilities (current balance)	**447,523**
State School Facilities Program Joint Use[1]	**1,000,000**
State School Facilities Program New Construction[2]	**964,920**
State School Facilities Program Modernization[3]	**601,260**
Total Anticipated Sources	**$3,013,703**
Uses	
Preliminary Project List	**21,070,000**
Total Anticipated Uses	**$21,070,000**
Surplus/Shortfall	**($18,056,297)**

Footnotes:
[1]*Assumes the District is funded for the Bret Harte High MPR/Community Center project in the 2007-08 SFP Joint Use funding cycle.*
[2]*Assumes the District is eligible for 86 SFP New Construction grants and has local matching funds to support the grants.*
[3]*Assumes the District is eligible for 83 SFP Modernization grants at Bret Harte High School and 27 SFP Modernization grants at Vallecito Continuation High School and has local matching funds to support the grants.*

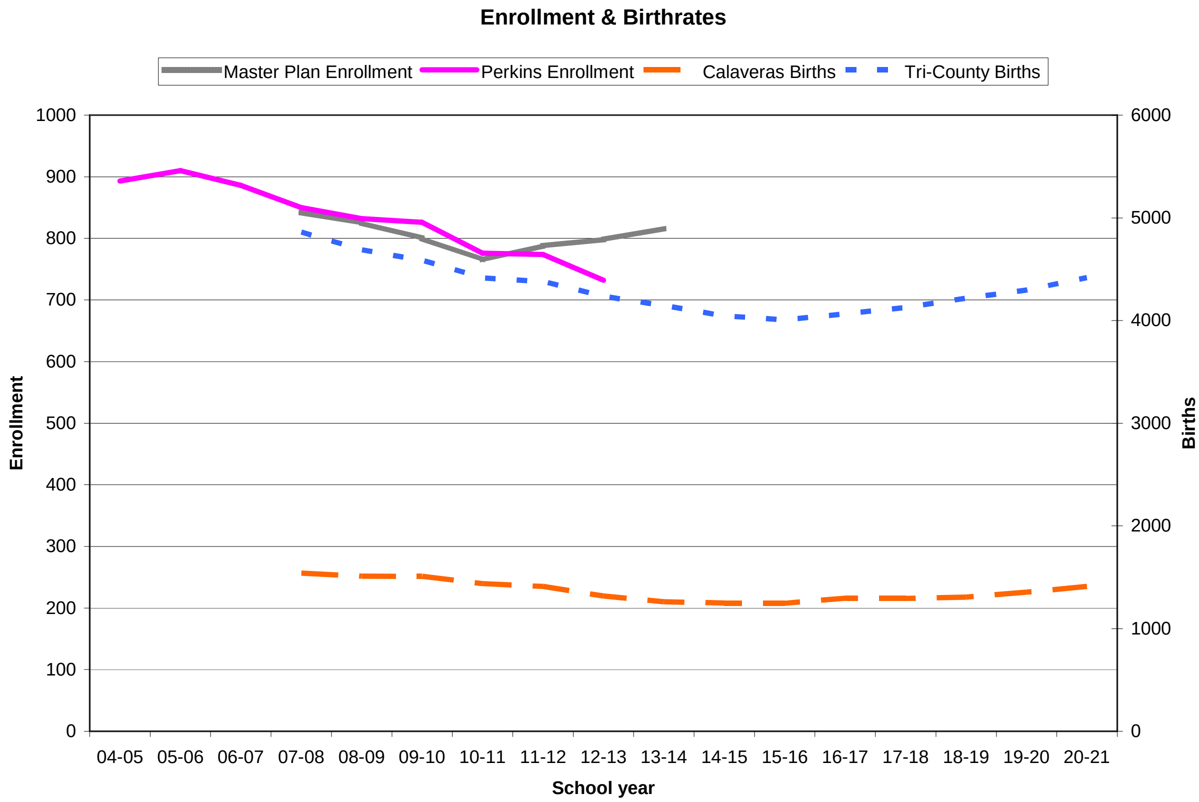
The Facility Master Plan asked District staff and community survey respondents to "identify and/or rank certain projects in priority order for the District." The results were as follows:

Community At Large Priorities*

1. Computer/Technology	**7.97**
2. Science Labs	**7.88**
3. Restrooms	**7.63**
4. Library/Media Center	**7.39**
5. Replace Portables	**7.24**
6. Multipurpose/Cafeteria	**7.15**
7. Vocational Classrooms	**7.03**
8. Heating/Ventilation	**6.64**
9. Pool Facilities	**6.29**
10. Artificial Sports Fields	**4.57**
11. Hardcourts/Playfields	**4.44**
12. Copperopolis	**4.06**

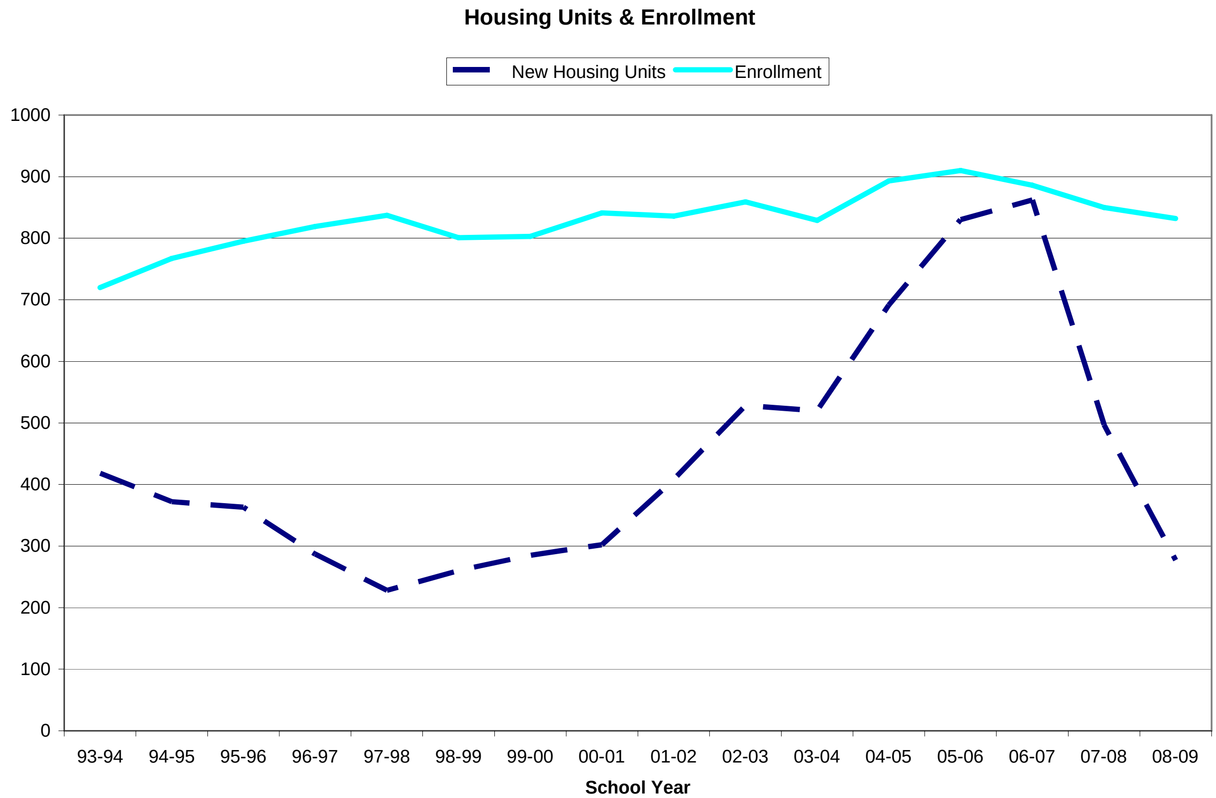
**Average of all responses with 12 being highest priority.*

<u>Projected Enrollment</u>



The chart above compares Bret Harte High School's past enrollment and projected enrollment with the corresponding birthrates. The "Tri-County Births" compilation consists of Calaveras, Amador and Tuolumne counties. Births impacting enrollment in the 2007-2008 school year were taken from the California Department of Public Health's birth records of 1990-1993, since students born in those four years would be enrolled during 2007-2008. Births from 1991-1994 were used for the 2008-2009 school year, and so on. Unfortunately birth rates on a county by county basis are not provided by the Department of Public Health for years prior to 1990.

A clear correlation (correlation coefficient of 0.99) exists between birth rates and the enrollment figures included in the Perkins Career Technical Education document. However, the enrollment projections in the Facility Master Plan diverge from historical birthrates during the 2010-2011 school year. A review of the Master Plan document suggests this divergence is attributable to a projected 700 new housing units over the next six years, but this conclusion is very tenuous for a number of reasons. First, 2,466 new housing unit permits were issued from 2004-2007, and yet Bret Harte's enrollment declined 7% over this same timeframe. Second, the Facility Master Plan points out, "The State yield rate for grades 9-12 is 0.2 students per home. The local yield rate for all housing types was 0.121 as of the 2000 Census. Even though the District has experienced growth in new homes, new homes in this region are not generating students at numbers close to the state average." Third, the past enrollment trends are only partially explained by new home construction as evidenced by the chart below (a correlation coefficient of only 0.64 between the two variables).



Consequently it does not seem plausible that new housing units will increase enrollment above current levels in the face of such steep declines in the number of births.

In fact, births in Calaveras County from 1991-1994, which directly contribute to the current 2008-2009 high school enrollment, totaled 1,511, but births from 2003-2006, which will directly contribute to the 2020-2021 school year, totaled only 1,409. This is a decrease of 102 children, or 6.75%. A similar trend exists when totaling births in Amador, Calaveras and Tuolumne counties with a decrease of 5.74% over the same time period, so in as much as birth rates are a contributor to enrollment we cannot expect enrollment to increase above current levels for at least the next 12 years. In as much as new housing is a contributor, 1) we do not see the same level of correlation between housing and enrollment as 2005-2008 demonstrates, 2) student yields per local housing unit are 39.5% below the State average, and 3) the most influential demographic fact in this nation, which is the retirement of the baby boomers over the next 15 years, means the attraction of retirees to the foothills is likely to keep our student yield per housing unit well below the State's average for a long time to come.

New Classroom Construction

Measure K proposes two classroom construction projects. The first is estimated at a cost of $2.5 million in the Facility Master Plan to build four new science classrooms, two special education classrooms and four standard classrooms (a total of 10 classrooms). This first project is eligible for $964,920 in matching State New Construction grants. The second project is also estimated at $2.5 million for 10 more standard classrooms for future expansion of Bret Harte and/or Copperopolis. It should be noted that Measure K allows for construction of these projects on an "as needed" basis, so this second project may not be needed for many years if enrollment growth does not materialize.

The Facility Master Plan lists Bret Harte's current capacity at 972 students (36 classrooms at 27 students classroom), which is 17.8% above current enrollment levels. Consequently the plan states, "No additional classrooms will be needed by the District in the next six years to accommodate enrollment growth." This report's previous enrollment evaluations suggest this timeframe can be extended out past the next 12 years.

Perhaps enrollment figures are not the only reason to consider building new classrooms. For example, maybe the four new science and two special education classrooms will improve the quality of education at Bret Hart. A case can be made that existing science classrooms are too small and not modern enough.

Currently there are eight portable classrooms in excess of 20 years old at Bret Harte. In light of no visible needs for future enrollment expansion, but the potential for improved education with the addition of the above six classrooms, it seems prudent to the Calaveras County Taxpayers Association to replace the eight portables with these six new classrooms. The four new standard classrooms also proposed in this project are not yet necessary; however it might be financially efficient to construct them at the same time. Doing so would increase the school's capacity to 1,026 students, a figure not likely to be reached in the next two decades, but allowing for increased enrollment nonetheless.

The second construction project of 10 new standard classrooms appears wholly unnecessary if enrollment does not explode. In the unlikely event that the previously stated enrollment projections prove incorrect and the district is surprised by an unplanned surge in enrollment, then the most cost effective solution is to either lease or purchase new portable classrooms at that time. The Facility Master Plan states that portables can be purchased at 1/3 the expense of building new permanent classrooms, or better yet they can be leased for as little as $4,000 - $15,000 per year – an excellent solution until permanent classrooms are built. Additionally, these 10 standard classrooms were ranked dead last on the list of priorities identified in the Community at Large survey done by the Facility Master Plan.

Upgrade Replace HVAC Systems

Bret Harte's current HVAC systems range in age from 31 to 36 years old. HCS Engineering, Inc. did site visits in August and October of 2007 and produced a detailed report recommending replacement of the current systems. According to HCS, many of the systems are so old that replacement parts are no longer available should repair become necessary.

The District is eligible for $601,260 in State Modernization grants that can be used to upgrade the HVAC systems, though the entire cost is estimated at $1.4 million. Measure K would provide the matching funds necessary to get the State monies.

Construct Aquatic Center

The estimated cost of the Aquatic Center is listed at $2.4 million. Since this is not an educational necessity, the community simply needs to ask itself if it wants to buy a $2.4 million swimming pool. Measure K will do that through the assessment of taxes, not through free market solutions such as volunteer donations, fundraising or user fees paid by those who actually use the pool. The Community at Large Priorities survey ranked this project a priority of 9 out of 12.

Upgrade Playfields

This projects estimated cost is $1.2 million and proposes to "Inspect and improve play area fields for safety and drainage and relevel or returf playing fields to meet safety standards for student and community use." Additional wheelchair access would be added to the stadium. District Administration cites drainage issues and the current level of use of the field as existing problems. Measure K will fund this project through the assessment of involuntary taxes rather than gate receipts, use fees, voluntary donations or fundraising efforts. The Community at Large Priorities survey ranked these upgrades a priority of 10 and 11 out of 12.

Construct Joint Use Facility in Copperopolis

This project's cost estimate is $1 million to build a "minimum essential high school or joint-use facility in Copperopolis." This project ranked 12th out of 12 on the priorities survey of the Community at Large in the Facility Master Plan.

Move Vallecito site to Bret Harte

This project's cost is estimated at $250,000, and may better serve the educational needs of students while providing better asset management for the District.

Refinance Certificates of Participation (COPs)

Certificates of Participation (COPs) are "instrument(s) evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the lease payments from a particular project. The lease payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and lease payments to a trustee, which then distributes the lease payments to the certificate holders."[1]

"In 1978 California voters approved Proposition 13, which, among other things, increased the required voter approval for bond debt from a simple majority to a two-thirds vote, and governments found this increased approval percentage quite difficult to obtain. COPs, not requiring any voter approval, quickly became the financing mechanism of choice."[2]

"For many years, lease financing has been among the most popular methods used to finance capital improvements while complying with or avoiding constitutional debt limitations applicable to the State of California, its cities, counties and school districts."[3]

According to the above sources, COPs are used to finance capital intensive projects because they do not require voter approval and they avoid constitutional debt limitations. Further details surrounding the use of COPs are in the Appendix.

The District refinanced $5,950,000 of COPs on March 21, 2006 at a Net Interest Cost of 4.265%[4]. They were underwritten by Piper Jaffray & Co., insured by Ambac, and US Bank Natl Assoc serves as Trustee. Payments are due every September 1st according to the following schedule[5]:

Due	Amount	Cpn	Reoffered	Insurer
9/1/06	$185,000	3.25%	3.25%	Ambac
9/1/07	$200,000	3.25%	3.30%	Ambac
9/1/08	$205,000	3.25%	3.40%	Ambac
9/1/09	$215,000	3.25%	3.45%	Ambac
9/1/10	$220,000	3.50%	3.50%	Ambac
9/1/11	$225,000	3.50%	3.55%	Ambac
9/1/12	$230,000	3.50%	3.60%	Ambac
9/1/13	$245,000	3.50%	3.65%	Ambac
9/1/14	$250,000	3.60%	3.75%	Ambac
9/1/16	$530,000	3.90%	3.89%	Ambac
9/1/18	$575,000	4.50%	3.90%	Ambac
9/1/20	$635,000	4.25%	4.15%	Ambac
9/1/23	$1,040,000	4.25%	4.28%	Ambac
9/1/26	$1,195,000	4.25%	4.38%	Ambac

The June 30, 2008 COPs payable totaled approximately $6.2 million, and all long-term liabilities totaled $6.8 million. Measure K seeks to refinance these long-term liabilities under the bond issue, because current payments on these debts amount to about $500,000 per year, of which $258,658 due in 2009 is attributable to the COPs.

[1] Municipal Securities Rule Making Board.
[2] Santa Barbara County Grand Jury. http://www.sbcgj.org/2001/2001certpart.htm
[3] Orrick. http://www.orrick.com/practices/public_finance/leaseRevenue.asp
[4] California Debt and Investment Advisory Commission, May, 2006, Volume 25, No. 5, page 14.
[5] The Bond Buyer, March 23, 2006. http://www.accessmylibrary.com/coms2/summary_0286-14028572_ITM

The COPs were originally issued to pay for the following projects:

- Acquisition of Sports Complex property
- Renovation of the track
- Purchase new school bus
- Matching funds for State Modernization Program
- Matching funds for State Growth Program
- Gymnasium floor renovation

Resolution number 2009-1 of the Bret Harte Union High School District directs that bonds shall be "sold for the purpose of raising money for the purposes described in Exhibits A and B." Exhibit A is simply the text of the ballot measure itself. Exhibit B lists the specific projects for which the bond proceeds are to be used, and includes the "reduction or retirement of outstanding lease obligations so that more operating funds can be used for ongoing school maintenance and repairs." The District states that operating funds are being used to pay the leases on the above mentioned construction expenditures. This drain on operating funds may explain why Measure K includes $240,000 for maintenance and repairs. Perhaps no such need would exist if operating funds were not used to pay for construction leases.

In short, the District's construction debt structured as Certificates of Participation to avoid the requirement of voter approval detracts from maintenance and repairs, and Measure K seeks to change that. However, Measure K's funding comes in the form of new taxes, whereas the COPs are currently funded by existing budgetary resources.

CCTA has two primary concerns with Measure K's refinancing of the COPs.

First, municipal bond market yields have risen significantly over the past two years, and it's most likely the COPs will refinance at higher rates. The following list of current California School District bond yields demonstrates this likelihood[6].

CUSIP	Description	Rating	Coupon	Maturity	Next Call	Est. YTW	Est. YTM	Est. Price
556454BT2 MUNI	MADERA CALIF UNI S sf2029	Aaa/AAA FSA	5.125%	09/01/2033	C 2014	5.090%	5.113%	100.167
134159PX4 MUNI	CAMPBELL CALIF UN sf2034	Aaa/NR AGC	5.000%	08/01/2035	C 2017@101.0	5.180%	5.180%	97.401
381303DM5 MUNI	GOLDEN VY UNI SCH sf2023	Aaa/AAA FSA	5.000%	08/01/2036	C 2017	5.330%	5.330%	95.238
134159PY2 MUNI	CAMPBELL CALIF UN sf2036	Aaa/NR AGC	5.000%	08/01/2038	C 2017@101.0	5.270%	5.270%	95.958

The above sampling of current CA school district bonds for retail sale indicates that market yields currently range from 5.11% to 5.33%. The bonds sampled have similar characteristics to those CCTA anticipates Bret Harte would issue in that they are insured and mature in 25 or more years. Current coupon rates on the COPs range from 3.25% to 4.5%, therefore CCTA expects such a refinancing will produce a higher interest expense to taxpayers.

[6] Provided by LPL Financial on October 27, 2008 and was their complete list of all CA school district bonds for retail sale maturing in 25+ years and paying coupons.

Note that bonds with call provisions at a premium might be issued at a lower interest rate. If the District does issues new bonds, and if it anticipates higher interest rates in the future, then such a call provision may be prudent because the bonds will not be called if rates rise and the call premium never paid.

Second, it is generally accepted that taxpayers want to vote before being placed on the hook for multi-million dollar construction projects. The issuance of COPs to pay for construction expenditures without voter approval is legal and municipalities are only constrained in such issuance by their operating budgets. Therefore, once these current obligations are rolled into the bond issue and removed from the District's operating budget no legal apparatus currently exists to prevent the District from issuing COPs again in the future. It appears to CCTA that taxpayers have only two modes for preventing construction expenditures without voter approval: 1) leave the District's budget constrained by the current lease expenses so it can't afford new COPs, or 2) pass legislation or ordinances banning or limiting the use of lease payments on construction projects.

APPENDIX

SOURCE: SANTA BARBARA COUNTY GRAND JURY[7]

Historically, COPs have been a financing method, among other things, to monetize existing surplus real estate. If a local government agency (Lessor) did not have a current need for certain facilities, officials had the authority to lease those facilities to a designated non-profit corporation (Trustee) that would in turn sub-lease the facilities to other organizations (Sub-lessees). In order to monetize the facility, Trustees would sell Certificates of Participation in the future sub-lease payments to be received by the corporation. The corporation would then apportion those monies back to the local government agencies.

For projects such as purchasing or constructing new buildings, governmental entities traditionally used long-term bonds, issued with approval of the voters (or, rarely, available cash). In 1978 California voters approved Proposition 13, which, among other things, increased the required voter approval for bond debt from a simple majority to a two-thirds vote, and governments found this increased approval percentage quite difficult to obtain. COPs, not requiring any voter approval, quickly became the financing mechanism of choice.

Since the passage of Proposition 13, the Board of Supervisors has encumbered the citizenry of Santa Barbara County with more than $100 million in long term obligations over the years without voter approval. This has been accomplished through sale-leasebacks of county real estate and equipment financed by COPs rather than bonded indebtedness. As of June 30, 2000, the outstanding COPs debt was $50.695 million. Of this total, $43.414 million is in the general long-term debt account group and $7.28 million is in the Solid Waste Enterprise Fund.

This large debt obligation can be created by a simple majority (3-2*)* vote of the BOS if COPs are approved during the budget cycle (a 2/3 vote is required if outside the budget).

Voter reluctance to approve bonds by the required 2/3 majority has no doubt contributed to the BOS use of COPs as the primary financing method for capital projects.

DESCRIPTION OF CERTIFICATES OF PARTICIPATION

Certificates of Participation are defined as lease financing agreements in the form of tax exempt securities similar to bonds. In COPs financing, title to a leased asset is assigned by the lessor to a trustee (non-profit corporation) that holds it for the benefit of the investors, the certificate holders. The participation of many investors in the lease transaction allows the transformation of what would otherwise be a straightforward financing instrument executed between a lessee and a lessor into a marketable security. COPs are thus a method of leveraging public assets and borrowing all or a portion of the value of a public agency's equity in those assets in order to finance other assets. By entering into a tax-exempt lease financing agreement a public agency is using its authority to acquire or dispose of property, rather than its authority to incur debt. This financing technique provides long-term financing through a lease or lease-purchase agreement that legally does not constitute indebtedness under the State constitutional debt limitation. (Despite this, the term "debt" is generally still used in describing the obligation.) It is not subject to other statutory requirements applicable to bonds, including the requirement of a vote of citizens.

The non-profit corporation is the intermediary entity that is created to issue the COPs for sale to investors as marketable securities. This means that the lease enjoys much greater access to funds and creates liquidity for investors. COP-based borrowing makes the certificates marketable and transferable, generally behaving like conventional tax-exempt debt instruments.

A key characteristic of a tax-exempt lease that distinguishes it from bond indebtedness is a nonappropriation clause. The nonappropriation or fiscal funding clause means that payments of the lease are dependent upon an annual

[7] http://www.sbcgj.org/2001/2001certpart.htm

appropriation by the governing body. This differentiates the lease from indebtedness because with the nonappropriation provision, the present-year government's action does not bind succeeding ones to pay the obligation. However, the non-debt classification of lease-purchase financing does not eliminate the need to fund lease payment expenditures nor does it eliminate the responsibility of the government to disclose the obligation in its financial statements.

COPs Procedure

The general procedure for issuance of a COP is as follows:

1. The County identifies the leaseable asset, the purpose for incurring debt and the amount of debt to be incurred.
2. The County leases or transfers the leaseable asset to a Lessor.
3. The Lessor leases the asset back to the County.
4. The Lessor's right to receive lease payments are transferred to a Trustee.
5. The Trustee executes Certificates of Participation which are sold to members of the public.

All of the steps in the leaseback arrangement are performed together giving the appearance of one seamless transaction.

If the government lessee fails to make the required lease payments, the lessor has the right to take possession of and operate or sell the property without a legal contest.

In the event the issuer failed to make a lease appropriation under a COPs financing the lessor would assume ownership of the leased equipment or facility and would also be subjected to a potential change in the tax treatment of the obligation. For these reasons investors place great emphasis on the "essentiality" of the leased property. If it is evident that the equipment or facility is essential to the government's operation, investors feel there is a reduced risk that an event of nonappropriation will occur.

An asset transfer structure for COPs is typically used for two reasons: First, it allows the construction of a project without having to capitalize interest. Second, the project being acquired or constructed may not have a sufficient degree of necessity; encumbering a more essential asset may raise the level of essentiality to allow COP financing.

Some of the stated disadvantages include "dilution of the government's general resources by encumbering equity in the pledged assets" and "revenue capacity within the current operating budget must be identified." The interest-rate for COPs financing is typically higher than for general obligation bonds. The interest rate differential reflects the added risks of nonappropriation in a lease-purchase financing structure. COPs also require a debt-service reserve fund, typically 10% of the principal, which is not required for general obligation borrowing. Using COPs increases the principal amount borrowed because of the debt service fund.[8]

SOURCE: NATIONAL ASSOCIATION OF COUNTIES[9]

A lease purchase arrangement can provide counties with an alternative financing mechanism to cash purchases or bonded debt. It has become one of the most popular and fastest growing areas of municipal finance. Lease purchases

[8] "Orrick has also worked with certain issuers to develop a lease financing program which avoids the need for a funded reserve fund, typical in most lease financing structures." http://www.orrick.com/practices/public_finance/leaseRevenue.asp

[9] http://www.naco.org/Template.cfm?Section=Publications3&template=/ContentManagement/ContentDisplay.cfm&ContentID=5457

are structured as a series of one-year renewable obligations spread out over the life of the asset. They enable counties to conserve working capital without incurring long-term debt obligations.

Certificates of Participation (COP), the most commonly used form of lease purchase financing, create a tax-exempt lease to finance capital improvement projects or to purchase essential equipment. A COP is a lease purchase agreement that is divided and sold to multiple investors in fractions, similar to stocks, usually in $5,000 denominations. Most COPs receive investment ratings from a rating agency and each certificate represents a proportional interest in the payments that will be made by the county government. Although rarely done, some counties have their COPs insured rather than receive a rating from an investment agency.

How Are COPs Structured?

In a typical lease purchase arrangement, the county, known as a lessee, purchases property or equipment under contract from a lessor (usually a vendor) another public entity or a special purpose nonprofit corporation. The lessor raises funds through the sale of COPs to investors, which provides funds to pay for the purchase of the asset. The county pays yearly lease payments consisting of principal and interest to the certificate holders until the debt is repaid. The lessor receives a portion of each lease payment as tax-exempt interest.

The assets are held by a trustee, which is either a bank or trust company. The trustee prepares and executes the certificates, holds title to the leased asset, and receives the county's payments and remits them to the certificate holders. During the lease payment term, title to the asset may be vested in the name of the county with the lessor retaining a security interest in the asset. Once repayment is complete, ownership of the asset is transferred to the county. If the county should default on the lease payments, the trustee is responsible for selling the assets and using the proceeds to reimburse the certificate holders.

A well-written lease usually contains a rent abatement clause. An abatement provision enables the county to halt payments if the project is destroyed or otherwise cannot be used. Suitable insurance coverage during the construction and operation phases of the project can help protect investors from most events that would lead to rental abatements.

Financing Without Accumulating Debt

In many states, COP issuance is unaffected by statutory or constitutional debt limitations on the amount of debt incurred by governmental entities. These lease purchases are not treated as debt because the county is required to annually appropriate funds for lease payments.

Voter Approval Not Required

COPs do not require a referendum and thus provide counties with greater flexibility in the face of constitutional or statutory impediments to the issuance of general obligation debt. The lease underlying the COP will usually state that the obligation to make payments does not represent a pledge of tax revenues or a general obligation of the county. In many jurisdictions, the payments can be regarded as expenses if the arrangement is a renewable lease subject to annual appropriation. COPs can be brought to the market in a more timely manner than general obligation debt (primarily because the COPs do not require a referendum).

What Are The Limitations of COPs?

Before you implement a lease purchase agreement, your county should understand its limitations.

- COPs can only be issued to finance physical capital that is suitable as collateral, and only if the county has the authority to negotiate long-term leases. The asset must also serve an essential purpose for the government entity.

- COPs can bear a higher interest rate than general obligation bonds and revenue bonds. Although the interest differential depends upon the credit rating the COP receives, it tends to range from one-tenth of a percentage (or 10 Basis Points) point to one full percentage point (100 Basis Points) above general obligation interest costs.
- Issuance costs may be higher for COP transactions than for other types of lease purchase financing. However, the costs of preparing documents, designing the transaction and executing the sale for a COP financing are similar to those for a bond financing.
- Legally, a county government has the right not to appropriate the necessary funds to meet lease purchasing payments for any given year. As a result, the repayment pledge for a COP agreement is generally viewed as weaker than a general obligation bond. A decision to terminate lease payments may result in a reduction of the county's rating for revenue and general obligation bonds. Such a downgrading can have a costly effect on a county's interest costs on future bonds.

EXHIBIT B

FULL TEXT BALLOT PROPOSITION
OF THE BRET HARTE UNION HIGH SCHOOL DISTRICT
BOND MEASURE ELECTION NOVEMBER 4, 2008

"**<u>Bret Harte High School Improvement Measure</u>:** To improve the quality of education and job training, shall Bret Harte Union High School District issue $18,000,000 in bonds at legal rates to construct, improve and equip schools, sites, buildings, joint-use facilities, restrooms, install energy efficient HVAC systems, replace aging temporary classrooms, improve science labs, classrooms, grounds, fields and facilities for student and community use, with mandatory financial audits, independent citizen oversight, and no money for administrators' salaries?"

PRIORITY SCHOOLS PROJECT LIST

The Board of Education of the Bret Harte Union High School District evaluated the District's urgent and critical facility needs, including safety issues, class size, and computer technology, in developing the scope of projects to be funded, as developed in the Bret Harte Union High School District Facility Master Plan 2008, last updated and approved by the Board on April 25, 2008. The Board conducted a facilities evaluation and received public input and review in developing the scope of projects to be funded, as listed in the Facility Master Plan 2008. **In connection with the Project List, the Board of Education makes four important determinations:**

(i) it is important to repair and upgrade aging school buildings so that they may serve the students and community for another 25 years; and

(ii) classrooms must be upgraded to best prepare students for jobs as well as college; and

(iii) to ensure that schools in the District are comparable to facilities offered by other California school districts; and

(iv) to reduce operating expenses and save energy the District should upgrade heating, ventilation, air conditioning and utility systems.

The Facility Master Plan 2008 is on file at the District Office of the Superintendent and includes the following projects listed below.

<u>School Renovation, Repair and Upgrade Projects</u>

<u>Goal and Purpose</u>: **Bret Harte High School will benefit from the renovation, repair and upgrade of deteriorating, outdated facilities, science labs, classrooms, and equipment, allowing all children to have the resources they need to learn and excel and extending the useful life of our existing buildings:**

- Repair and upgrade worn-out leaking roofs.

- Replace existing wiring systems to meet current electrical and accessibility codes and increased capacity.
- Additional electrical service capacity to relieve currently overloaded electrical systems.
- Upgrade aging and deteriorating school bathrooms.
- Replace older heating, ventilation, air conditioning and lighting systems with building code compliant, energy efficient and low operational cost systems.
- Upgrade and equip classrooms and science labs.
- Classroom interiors will receive new paint, carpet/vinyl tile/asbestos abatement, white markerboards, smartboards, tackable surfaces, increase secure storage capacity for instructional materials and equipment.
- Federal and State-mandated Americans with Disabilities Act (ADA) accessibility upgrades including site access, parking, staff and student restrooms, relocation of some existing electrical devices, and drinking fountains.
- Replace portable classrooms.
- Repair aging facilities at district schools.

School Safety and Energy Efficiency School Projects

Goal and Purpose: To ensure that the student learning process and community use of school facilities is not interrupted by faulty utility systems or unsafe conditions, Bret Harte High School, Vallecito High School, John Vierra High School and all District buildings and sites will benefit from a variety of health and safety projects, such as:

- Inspect for and remove all asbestos, lead paint, mold and all hazardous materials.
- Upgrade to schools to meet handicap accessibility requirements.
- Inspect for/repair "pinhole" gas pipe leaks.
- Install/replace/upgrade security fencing.
- Install energy efficient heating, cooling, and ventilation systems to save costs and energy.
- Replace certain existing window systems with energy efficient systems.
- Upgrade and improve restrooms and concession stand.
- Federal and State-mandated Occupational Safety & Health Administration (OSHA) safety upgrades.
- Inspect and improve play area fields for safety and drainage and relevel or returf playing fields to meet safety standards for student and community use.
- Repair termite damage to structures and doors/doorframes.
- Install deck covering at Vallecito High School.

District-Wide Wiring and Instructional Technology
<u>For Effective Learning Environment Projects</u>

<u>Goal and Purpose</u>: To improve both current instruction methods and to expand job training programs by applying modern technology infrastructure:

- Provide and maintain state-of-the-art technology, data and communication equipment.
- Upgrade and expand wireless systems, telecommunications, internet and network connections.
- Upgrade and replace computers, hardware and software systems.
- Upgrade and replace classrooms equipment and instructional aids.

<u>Classroom Improvements to Enhance Job Training</u>

<u>Goal and Purpose</u>: To increase opportunities for career training and technical and job training:

- Construct four new science classrooms, two special education and four standard classrooms at Bret Harte High School permitting curriculum to focus on training students for jobs in health, engineering and other professions.
- Upgrade technology and equipment used in job training programs.

<u>New Construction Education Enhancement Projects</u>

<u>Goal and Purpose</u>: To prevent overcrowding at Bret Harte High School, enhance the educational environment and to reduce the risk in the event of emergency evacuation, Bret Harte High School would benefit from the construction and expansion of additional earthquake and accessibility code compliant facilities, such as:

- New classrooms/classroom buildings, which will reduce dependency on portable classrooms and comply with current graduation requirements.
- Enhance and/or relocate school programs to better serve the educational needs of our students.
- Construct a swimming pool for student use and open to the entire community throughout the year.
- ADA accessibility upgrades as mandated by the Division of the State Architect (DSA).
- Build minimum essential high school or joint-use facility in Copperopolis, along with necessary fields.

Listed building, repair and rehabilitation projects and upgrades will be completed as needed. Each project is assumed to include its share of furniture, equipment, architectural, engineering, and similar planning costs, program management, staff training expenses and a customary contingency for unforeseen design and construction costs. In addition to the listed repair and construction projects stated above, the Priority Schools Project List also includes the acquisition of a variety of instructional, maintenance and operational equipment, the reduction or retirement of outstanding lease obligations so that more operating funds can be used for ongoing school maintenance and repairs, the payment of the costs of preparation of all facility planning, facility assessment reviews, environmental studies and construction documentation, the acquisition of outstanding ground leases, temporary housing of dislocated District activities caused by bond projects and the leasing or acquisition of a transportation lot for school buses. The allocation of bond proceeds will be affected by the District's receipt of State matching funds and the final costs of each project. In the absence of State matching funds, which the District will aggressively pursue to reduce the District's share of the costs of the projects, the District will not be able to complete some of the projects listed above. Certain projects may be undertaken as joint use projects in cooperation with other local public agencies. The budget for each project is an estimate and may be affected by factors beyond the District's control. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. Based on the final costs of each project, certain of the projects described above may be delayed or may not be completed. Demolition of existing facilities and reconstruction of facilities scheduled for repair and upgrade may occur, if the Board determines that such an approach would be more cost-effective in creating more enhanced and operationally efficient campuses. Necessary site preparation/restoration may occur in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, removing, replacing, or installing irrigation, utility lines, trees and landscaping, relocating fire access roads, and acquiring any necessary easements, licenses, or rights of way to the property. Proceeds of the bonds may be used to pay or reimburse the District for the cost of District staff when performing work on or necessary and incidental to bond projects. Bond proceeds shall only be expended for the specific purposes identified herein. The District shall create an account into which proceeds of the bonds shall be deposited and comply with the reporting requirements of Government Code § 53410.

PROJECT CONSTRUCTION ACCOUNTABILITY AND SAFEGUARDS. EACH PROJECT PAID FOR WITH BOND MONEY WILL BE SUBJECT TO OVERSIGHT OF A PROFESSIONAL CONSTRUCTION MANAGEMENT FIRM WITH A PROVEN TRACK RECORD OF DELIVERING SCHOOL CONSTRUCTION PROJECTS ON-TIME AND ON-BUDGET TO SAVE TAXPAYER DOLLARS.

NO ADMINISTRATOR SALARIES. PROCEEDS FROM THE SALE OF THE BONDS AUTHORIZED BY THIS PROPOSITION SHALL BE USED ONLY FOR THE ACQUISITION, CONSTRUCTION, RECONSTRUCTION, REHABILITATION, OR REPLACEMENT OF SCHOOL FACILITIES, INCLUDING THE FURNISHING AND EQUIPPING OF SCHOOL FACILITIES, AND NOT FOR ANY OTHER PURPOSE, INCLUDING TEACHER AND SCHOOL ADMINISTRATOR SALARIES AND OTHER OPERATING EXPENSES.

FISCAL ACCOUNTABILITY. THE EXPENDITURE OF BOND MONEY ON THESE PROJECTS IS SUBJECT TO STRINGENT FINANCIAL ACCOUNTABILITY REQUIREMENTS. BY LAW, PERFORMANCE AND FINANCIAL AUDITS WILL BE PERFORMED ANNUALLY, AND ALL BOND EXPENDITURES WILL BE MONITORED BY AN INDEPENDENT CITIZENS' OVERSIGHT COMMITTEE TO ENSURE THAT FUNDS ARE SPENT AS PROMISED AND SPECIFIED. THE CITIZENS' OVERSIGHT COMMITTEE MUST INCLUDE, AMONG OTHERS, REPRESENTATION OF A BONA FIDE TAXPAYERS ASSOCIATION, A BUSINESS ORGANIZATION AND A SENIOR CITIZENS ORGANIZATION. NO DISTRICT EMPLOYEES OR VENDORS ARE ALLOWED TO SERVE ON THE CITIZENS' OVERSIGHT COMMITTEE.