



PAJARO VALLEY UNIFIED SCHOOL DISTRICT MISSION STATEMENT

The Mission of the Pajaro Valley Unified School District is to educate and to support learners in reaching their highest potential. We prepare students to pursue successful futures and to make positive contributions to the community and global society.

December 9, 2009 ANNUAL ORGANIZATION BOARD MEETING *CLOSED SESSION – 5:30 p.m. – 7:00 p.m.*

PUBLIC SESSION – 7:00 p.m.
ANN SOLDO ELEMENTARY SCHOOL
MULTI PURPOSE ROOM
1140 Menasco Drive
Watsonville, CA 95076

NOTICE TO THE PUBLIC: PURSUANT TO SB 343, BOARD PACKET DOCUMENTS ARE AVAILABLE FOR YOUR REVIEW AT THE FOLLOWING LOCATIONS:

- Superintendent's Office: 294 Green Valley Road, Watsonville, CA (4th Floor)
- On our Webpage: www.pvUSD.net

Notice to the Audience on Public Comment

Members of the audience are welcome to address the Board on all items not listed on this agenda. Such comments are welcome at the "Visitor Non-Agenda Items".

Members of the audience will also have the opportunity to address the Board during the Board's consideration of each item on the agenda.

Individual speakers will be allowed three minutes (unless otherwise announced by the Board President) to address the Board on each agenda item. **You must submit this card prior to the discussion of the agenda item you wish to speak to; once an item has begun, cards will not be accepted for that item.** For the record, please state your name at the beginning of your statement. The Board shall limit the total time for public input on each agenda item to 20 minutes. With Board consent, the President may increase or decrease the time allowed for public presentation, depending on the topic and the number of persons wishing to be heard. The President may take a poll of speakers for or against a particular issue and may ask that additional persons speak only if they have something new to add.

Note: Time allotment for each item is for the report portion only; it is not an anticipation of the total time for the discussion of the item.

We ask that you please turn off your cell phones and pagers when you are in the boardroom.

1.0 CLOSED SESSION OPENING CEREMONY IN OPEN SESSION – 5:30 P.M.

1.1 Call to Order

1.2 Public comments on closed session agenda.

2.0 CLOSED SESSION (AND AFTER REGULAR SESSION IF NECESSARY)

- 2.1 Public Employee Appointment/Employment, Government Code Section 54957
 - a. Certificated Employees (see Attached)
 - b. Classified Employees (see attached)
- 2.2 Public Employee Discipline/Dismissal/Release/Leaves
- 2.3 Negotiations Update
 - a. CSEA
 - b. PVFT
 - c. Unrepresented Units: Management and Confidential
 - d. Substitutes – Communication Workers of America (CWA)
- 2.4 Claims for Damages
- 2.5 Existing Litigation
- 2.6 Pending Litigation
- 2.7 Anticipated Litigation
- 2.8 Real Property Negotiations
- 2.9 6 Expulsions

3.0 OPENING CEREMONY – MEETING OF THE BOARD IN PUBLIC - 7:00 P.M.

- 3.1 Pledge of Allegiance
- 3.2 Welcome by Board President
Trustees, Doug Keegan, Sandra Nichols, Karen Osmundson, Kim Turley, Libby Wilson, Willie Yahiro, and President Leslie De Rose.
- 3.3 Musical Presentation by Watsonville Charter School of the Arts Students
 - *Nathan Aguilar*
 - *Drew Arroyo*
 - *Donovan Arteaga*
 - *Daniel Bortin*
 - *William Bortin*
 - *Maddy Carlon*
 - *Keeley Christiansen*
 - *Samantha Galvan*
 - *Allyson Goldman*
 - *Jade Klinger*
 - *Mini Lamproe*
 - *Caleb Martin*
 - *Brielle Moreno*
 - *Victoria Otvos*
 - *Zaira Pena*
 - *Isabelle Preciado*
 - *Alexis Rodriguez-Rocha*
 - *Ilysa Rubalcava*
 - *Andrew Rusle*
 - *Samantha Valadez*
 - *Alyssa Vargas*

- *Dominic Vasquez*
- *Jesus Villarruel*
- *Mindhya Yamamoto*
- *Isaac Zepeda*

3.4 Presentation by Aptos High School Choir

- *Jessica Bryant*
- *Nia Carrico-Diener*
- *Grace Crandall*
- *Leah Daugherty*
- *Judson DiSalvo*
- *Shiyah Flynn*
- *Ana Goena*
- *Sarah Hazelwood*
- *Lauren Kitayama,*
- *Kelsey Kulbarsh*
- *Taylor Murphey,*
- *Kathleen Murray*
- *Jacob Nichols*
- *Amanda Okamoto*
- *Samantha Payne*
- *Max Shenfield*
- *Keegan Skinner*
- *Emily Wallace*
- *Hanna Wallace*
- *Jack Wilkins*
- *Mary Williamson*
- *Vanessa Yearsley*
- *Alex Vaughn*

3.5 Student Recognition

- *Reyna Leticia Velasquez - Starlight Elementary School*
- *Juan Carlos Ruiz-Zamora – Radcliff Elementary School*
- *Yulissa Nicole Martin-Covarrubias – MacQuiddy Elementary School*
- *Daniel Guzman-Chavez – Amesti Elementary School*
- *Kelly Kirchner – Mar Vista Elementary School*

4.0 ACTION ON CLOSED SESSION

5.0 APPROVAL OF THE AGENDA

6.0 APPROVAL OF MINUTES

a) *Minutes of November 18, 2009*

7.0 HIGH SCHOOL STUDENTS BOARD REPRESENTATIVES REPORT

8.0 ANNUAL ORGANIZATIONAL MEETING

8.1 Election of Officers of the Board and Appointment of Representative to the Board Agenda Review Committee

1. *President*
2. *Vice President/Clerk*
3. *Board Agenda Review Committee - Third Member*

5 Minute Break

8.2 Seating of New Officers of the Board of Trustees

8.3 Approve 2010 Board Meeting Schedule

9.0 VISITOR NON-AGENDA ITEMS

Public comments on items that are not on the agenda can be addressed at this time. The Board President will recognize any member of the audience wishing to speak to an item not on the agenda on a matter directly related to school business. The President may allot time to those wishing to speak, but no action will be taken on matters presented (Ed. Code Section 36146.6). If appropriate, the President or any Member of the Board may direct that a matter be referred to the Superintendent's Office for placement on a future agenda. (Please complete a card if you wish to speak.)

10.0 EMPLOYEE ORGANIZATION COMMENTS – PVFT, CSEA, PVAM, CWA 5 Min. Each

11.0 CONSENT AGENDA

Information concerning the Consent items listed above has been forwarded to each Board Member prior to this meeting for his/her study. Unless some Board Member or member of the audience has a question about a particular item(s) and asks that it be withdrawn from the Consent list, the item(s) will be approved at one time by the Board of Trustees. The action taken in approving Consent items is set forth in the explanation of the individual item(s).

11.1 Purchase Orders November 12 – December 2, 2009
The PO's will be available in the Superintendent's Office.

11.2 Warrants November 12 – December 2, 2009
The warrants will be available in the Superintendent's Office.

11.3 Approve with Gratitude donation of \$1,047 from Corralitos Community Free Methodist Church for Together in the Park Program in Corralitos.

11.4 Approve Resolution #09-10-11 on the Importance of Participation in the 2010 Census.

11.5 Approve Stimulus Contract with the California Department of Rehabilitation and Special Services Transition Partnership Program (TPP).

The administration recommends approval of the Consent Agenda.

12.0 DEFERRED CONSENT ITEMS

13.0 REPORT AND DISCUSSION ITEMS

None.

14.0 REPORT, DISCUSSION AND POSSIBLE ACTION ITEMS

14.1 Report, discussion and update on District Budget Information and possible action on Fiscal Stability Plan.
Report by Mary Hart, Associate Superintendent. 15 min.

14.2 Report, discussion and possible action to Accept Medical, Dental, and Vision Actuarial Reports.
Report by Mary Hart, Associate Superintendent. 5. Min.

14.3 Report, discussion and possible action to Approve the Governmental Accounting Standards Board (GASB) on Retiree Health Liabilities.
Report by Mary Hart, Associate Superintendent. 5 min.

- 14.4 Report, discussion and possible action on Resolution #09-10-07, Supplemental Early Retirement Program (SERP) Incentive for Certificated Non-Management.
Report by Dr. Albert Roman, Assistant Superintendent, HR. 5 min.
- 14.5 Report, discussion and possible action on Resolution #09-10-08, Supplemental Early Retirement Program (SERP) Incentive for Certificated and Classified Management.
Report by Dr. Albert Roman, Assistant Superintendent, HR. 5 min.
- 14.6 Report, discussion and possible action to approve Provisional Internship Permit for Marion Mesinger.
Report by Dr. Albert J. Roman, Assistant Superintendent. 1 min.
- 14.7 Report, discussion and possible action on Resolution #09-10-13, Authorizing the Execution of a Lease Purchase Agreement for Refinancing the Balance of 2000 Certificate of Participation (COP).
Report by Mary Hart, Associate Superintendent. 2 min.

The Board President recess from Board of Trustees meeting and reconvenes as Board of Directors for the Pajaro Valley Unified School District Financing Corporation.

AGENDA FOR PVUSD FINANCING CORPORATION:

1. OPEN SESSION

Immediately following the recess of the regular meeting of the Pajaro Valley Unified School District Board of Trustees.

2. REPORT ON THE NUMBER OF DIRECTORS PRESENT

Report on the number of Directors present in person in order to determine the existence of a quorum.

3. ACTION

3.1 DESIGNATION OF CORPORATION OFFICERS

The Directors shall ratify the appointment of officers to hold office until the next organizational meeting of the Corporation. The President of the Board of Trustees shall act as President of the non-profit corporation. The clerk of the Board of Trustees shall be Vice-President. The Secretary of the Board of Trustees shall act as Secretary of the Corporation. The remaining members shall act as Directors.

Vote: Ayes _____ Noes _____ Absent _____

3.2 RESOLUTION 09-10-0101 AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN LEASE FINANCING DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS WITH RESPECT THERETO.

Vote: Ayes _____ Noes _____ Absent _____

4. SUGGESTIONS AND COMMENTS BY BOARD MEMBERS

5. COMMUNICATIONS FROM THE PUBLIC

6. NEXT REGULAR MEETING OF THE BOARD OF DIRECTORS NO LATER THAN DECEMBER 31st, 2010.

7. ADJOURNMENT OF PVUSD FINANCING CORPORATION

The Board President reconvenes Board of Trustees meeting.

16.0 GOVERNING BOARD AND SUPERINTENDENT COMMENTS/REPORTS

17.0 UPCOMING BOARD MEETINGS/REMAINING BOARD MEETINGS FOR 2009

All meetings, unless otherwise noted, take place at the District Office Boardroom, 292 Green Valley Road, Watsonville, CA. Closed Session begins at 6:00 pm; Open Session begins at 7:00 pm.

		Comment
December	▪ 16	▪ Reg. mtg with Budget focus

18.0 ADJOURNMENT

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
CLOSED SESSION AGENDA
December 9, 2009

2.1 Closed Session

Public Employee Appointment/Employment Government Code Section 54957	
New Hires	
1	Elementary Teacher
New Substitutes	
14	Substitutes
New Hires – Probationary	
1	Info System Support Technician
1	Community Services Liaison
Rehires	
1	Elementary Teachers
Administrative	
	None
Promotions	
	None
Transfers	
	None
Extra Pay Assignments	
17	Coaches
Additional Assignments	
	None
Extra Period Assignments	
	None
Leaves of Absence	
1	Instructional Assistant I – Special Education
3	Instructional Assistant II – Special Education
1	Grounds Foreman
1	Payroll Technician
4	Elementary Teachers
1	Secondary Teachers
Separations From Service	
1	Office Manager

Resignations/Terminations	
1	Secondary Teacher
Supplemental Service Agreements	
22	Secondary Teachers
Supplemental Service Agreements/After School Program	
	None
Miscellaneous Actions	
1	Instructional Assistant – General Education
Limited Term – Projects	
3	Campus Safety Coordinator
1	Custodian I
1	Instructional Support Clerk
5	Enrichment Specialists
29	Instructional Assistants – General Education
6	Instructional Assistant – Migrant Children Centers
1	Language Support Liaisons
2	Library Media Technicians
1	Office Assistants III
2	Office Managers
Limited Term – Substitute	
3	Cafeteria Assistant
2	Custodian I
1	Campus Safety Coordinators
1	Instructional Assistants – General Education
3	Instructional Assistants - Migrant Children Center
Provisional	
	None
Exempt	
9	Babysitters
23	Student Helpers
3	Workability
1	Yard Duty Supervisors
Rescinds	
	None



November 18, 2009
REGULAR BOARD MEETING
CLOSED SESSION – 6:00 p.m. – 7:00 p.m.
UNADOPTED MINUTES

PUBLIC SESSION – 7:00 p.m.
DISTRICT OFFICE
BOARDROOM
292 Green Valley Road

1.0 CLOSED SESSION OPENING CEREMONY IN OPEN SESSION – 6:00 P.M.

1.1 Call to Order

President De Rose called the meeting of the Board to order at 6:01 pm at 292 Green Valley Road, Watsonville, CA.

1.2 Public comments on closed session agenda.

None.

2.0 CLOSED SESSION (AND AFTER REGULAR SESSION IF NECESSARY)

2.1 Public Employee Appointment/Employment, Government Code Section 54957

a. Certificated Employees

b. Classified Employees

New Hires	
2	Elementary Teachers
3	Secondary Teachers
New Substitutes	
	None
New Hires – Probationary	
1	Data Entry Specialists
1	Community Services Liaison
Rehires	
3	Elementary Teachers
Administrative	
	None
Promotions	
2	Career Development Specialists
1	Library Media Technician
Transfers	
	None
Extra Pay Assignments	
	None

Additional Assignments	
	None
Extra Period Assignments	
3	Secondary Teachers
Leaves of Absence	
3	Elementary Teachers
1	Secondary Teacher
1	Custodian II
2	Instructional Assistant II – Special Education
1	Cook Baker
1	Cafeteria Assistant
1	Lead Custodian
1	Bus Driver
1	<i>Assistant Principal</i>
Separations From Service	
1	Cafeteria Assistant
1	Instructional Assistant I – Special Education
Resignations/Terminations	
4	Secondary Teachers
Supplemental Service Agreements	
99	Elementary Teachers
47	Secondary Teachers
20	Site Coordinators
13	Children Center Teachers
1	Migrant Education Teachers
1	Extended Learning Program
Supplemental Service Agreements/After School Program	
	None
Miscellaneous Actions	
2	Career Development Specialists II
3	Instructional Assistants II
1	Lead Custodian
1	Site Computer Technician
Limited Term – Projects	
1	Administrative Assistant
1	Administrative Secretary III

1	Behavior Technician
3	Campus Safety Coordinators
1	Campus Security
21	Enrichment Specialists
57	Instructional Assistant – General Education
1	Language Support Specialist
7	Office Assistant II
16	Office Assistant III
4	Parent Education Specialist
2	Translators
6	Office Managers
1	Lead Custodian II
1	Library Media Technician
1	Registrar
1	Spectra Artist
2	Testing Specialists I
Limited Term – Substitute	
2	Campus Safety Coordinators
2	Cafeteria Assistants
3	Instructional Assistant II
2	Instructional Assistants – Migrant Children Center
Provisional	
	None
Exempt	
4	Migrant OWE Students
19	Workability Helpers
3	Workability
6	Yard Duty Supervisors
Rescinds	
	None

2.2 Public Employee Discipline/Dismissal/Release/Leaves

2.3 Negotiations Update

- a. CSEA
- b. PVFT
- c. Unrepresented Units: Management and Confidential
- d. Substitutes – Communication Workers of America (CWA)
 - Letter of Agreement with CWA

- 2.4 Claims for Damages
- 2.5 Existing Litigation
- 2.6 Pending Litigation
- 2.7 Anticipated Litigation
- 2.8 Real Property Negotiations
- 2.9 4 Expulsions

3.0 **OPENING CEREMONY – MEETING OF THE BOARD IN PUBLIC - 7:00 P.M.**
 President De Rose called the meeting of the Board in public to order 7:11.

3.1 **Pledge of Allegiance**

Trustee Nichols led the Board in the Pledge of Allegiance.

3.2 **Welcome by Board President**

Trustees, Doug Keegan, Sandra Nichols, Karen Osmundson, Kim Turley, Libby Wilson, Willie Yahiro, and President Leslie De Rose were present.

3.3 **Student Recognition**

Principals, teachers, family and friends were present to honor and recognize the accomplishments of the following students:

- *Julio Alvarez-Perez - HA Hyde Elementary School*
- *Miriam del Carmen Zarate Cortez – Mintie White Elementary School*
- *Daniel Hernandez – Landmark Elementary School*
- *Kristian Aguilar - Valencia Elementary School*

3.4 **Breck & Young Financial's Teacher of the Month Award**

- *Megan Dolan of Ohlone Elementary School*

Gloria Miranda, principal of Ohlone Elementary, introduced Megan Dolan and commented on her work as a teacher.

Jacob Young commented on the process for selecting the Teacher of the Month and congratulated the recipient of the \$50 dollar gift card.

4.0 **ACTION ON CLOSED SESSION**

2.1 **Public Employee Appointment/Employment, Government Code Section 54957**

a. **Certificated Employees**

Trustee Nichols moved to approve the certificated employee report with the addition of a Leave of Absence of 1 Assistant Principal. Trustee Keegan seconded the motion. The motion passed unanimously.

b. **Classified Employees**

Trustee Nichols moved to approve the classified employee report as presented. Trustee Keegan seconded the motion. The motion passed unanimously.

2.9 **4 Expulsions**

Action on Expulsions

Trustee Osmundson moved to approve the District Administration recommendation for the following expulsion case:

09-10-031

Trustee Keegan seconded the motion. The motion passed unanimously.

Trustee Osmundson moved to approve the District Administration recommendation for the following expulsion case:

09-10-032

Trustee Keegan seconded the motion. The motion passed unanimously.

Trustee Osmundson moved to approve the District Administration recommendation for the following expulsion case:

09-10-033

Trustee Nichols seconded the motion. The motion passed unanimously.

Trustee Osmundson moved to approve the District Administration recommendation for the following expulsion case:

09-10-034

Trustee Keegan seconded the motion. The motion passed unanimously.

5.0 APPROVAL OF THE AGENDA

Trustee Wilson moved to approve the agenda, moving item 13.2 after 7.0 Trustee Keegan seconded the motion. The motion passed unanimously.

6.0 APPROVAL OF MINUTES

a) Minutes of October 28, 2009

Trustee Keegan moved to approve the minutes for October 28, 2009. Trustee Yahiro seconded the motion. The motion passed unanimously.

b) Minutes of November 4, 2009

Trustee Keegan moved to approve the minutes for November 4, 2009. Trustee Yahiro seconded the motion. The motion passes unanimously.

7.0 HIGH SCHOOL STUDENTS BOARD REPRESENTATIVES REPORT

None.

13.2 Report, discussion and possible action on the Charter Renewal for Watsonville Charter School of the Arts & Memorandum of Understanding Between WCSA and the Pajaro Valley Unified School District.

Report by Trish Hucklebridge, Principal.

Trish Hucklebridge stated that the focus of the charter school remains the same. The student population has grown from 270 to 315. The MOU presented also remains the same with the difference of an expiration date to coincide with the charter petition.

Sheryl Gentry, teacher, and students presented a musical piece to the Board.

Parents Gilbert Moreno, Frank Agbayani, Leticia Preciado and Landa Rosebraugh were present and offered testimonials regarding the effectiveness of the school.

Board participated with comments.

Public comment:

Michael Jones, principal of Alianza, supports the work of the school and the petition. The school offers a unique way to meet the learning needs of the students of this community.

Trustee Wilson moved to approve this item. Trustee Yahiro seconded the motion. The motion passed unanimously.

8.0 VISITOR NON-AGENDA ITEMS

Bill Beecher, community member, spoke about administrator costs and compared it to the other districts, noting that total administration cost per student is lower than similar districts.

Bobbby Salazar, CSEA President, spoke about Robb Mayeda's retirement, acknowledged his work and wished him well.

Camille Haroldsen, teacher, commented about her experience in a full 3rd grade classroom; although it has been a good year, it has been difficult. Resents lack of CSR prioritization.

Francisco Naranjo, community member, spoke about students who are at risk of not graduating due to lack of sufficient credits; he requested that students who are referred to an alternative program be sent with administrator references.

Ramiro Medrano, community member, representing the Gear Up program, was there to introduce parents to board meetings and its process, stating the parents were concerned about the district's current economic state. He commented on the program's goal.

9.0 EMPLOYEE ORGANIZATION COMMENTS – PVFT, CSEA, PVAM, CWA 5 Min. Each

Francisco Rodriguez, PVFT President, reported of a press conference that took place earlier to call attention to the initiative of 2/3 requirement to pass the state budget; it should be changed to a simple majority to not tie up the process. Commented on a resolution regarding the budget asking that the Board to consider adopting one. He also commented on negotiations; the union and district are working with a mediator and hope a solution can be found.

Bobby Salazar, CSEA president, noted that the union has no objection to reappointing Gary Smith to the personnel commission. CSEA supports PVFT's position of simple majority to pass the budget.

Michael Jones, PVAM president, commented about fiscal crisis, and noted the organization's commitment to do what is necessary to share the sacrifice. He stated that he would propose to PVAM to unilaterally accept 6 furlough days for the current school year, in addition to any negotiated adjustments to benefits negotiated with PVFT.

Dorma Baker, superintendent, noted that Cabinet members would be taking furlough days to help with the critical budget. Albert Roman stated that this action was effective as of this 18th day of November.

10.0 CONSENT AGENDA

Trustee Keegan moved to approve the consent agenda with special recognition of the generous donations and deferring items 10.5 and 10.11. Trustee Wilson seconded the motion. The motion passed unanimously.

10.1 Purchase Orders October 22 – November 11, 2009
The PO's will be available in the Superintendent's Office.

10.2 Warrants October 22 – November 11, 2009
The warrants will be available in the Superintendent's Office.

10.3 Approve with Gratitude donations totaling \$1,420 to support Women's Athletics at Watsonville and Pajaro Valley High Schools from the Following: Sue Barthol, Marie Garcia, Jess Wachtel, Vera Pulido, K. Michel Witzig, Maria Zambudio, Vera Brown, David Schwartz, Alexandra Gonzalez, Mark Berceon, Sandy Barcelon, S. Moreno, B. Ingman, Diane Goody, Kristina Simpson, Jo-Ann Panzardi, Rosemary Brogan, Gary Caballero, Karen Goody, Michael Wilson, Patricia Wilson, and New Mexico Chile Company LLC.

- 10.4 Approve with Gratitude donation of \$500 from Kathleen and John Horne to Support HA Hyde Elementary School's Home and School Club.
- 10.5 Approve Request for Allowance of Attendance due to Emergency Conditions for Rio Del Mar and Watsonville Charter School of the Arts due to Storm on 10/14/2009 which caused power outages and school closure.

This item was deferred.

- 10.6 Approve Resolution #09-10-09, Child Development Programs Authorized Representative for Title 22 California Department of Social Services Community Care Licensing for Department of Education Child Development Division Programs.

- 10.7 Approve Migrant and Seasonal Head Start Refunding Application: Budget for March 1, 2010 – February 28, 2011.

- 10.8 Approve Migrant and Seasonal Head Start Refunding Application: Goals and Objectives for March 1, 2010 – February 28, 2011.

- 10.9 Approve Contract for Transportation Yard Lease.

- 10.10 Approve Letter of Agreement with Communication Workers of America, representing Substitute Teachers.

- 10.11 Approve Pacific Coast Charter School Memorandum of Understanding.

This item was deferred.

11.0 DEFERRED CONSENT ITEMS

- 10.5 Approve Request for Allowance of Attendance due to Emergency Conditions for Rio Del Mar and Watsonville Charter School of the Arts due to Storm on 10/14/2009 which caused power outages and school closure.

After some clarification, Trustee Nichols moved to approve this item. Trustee Yahiro seconded the motion. The motion passed unanimously.

- 10.11 Approve Pacific Coast Charter School Memorandum of Understanding.

After clarification and correction to the dates on the MOU, Trustee Keegan moved to approve this item. Trustee Turley seconded the motion. The motion passed unanimously.

12.0 REPORT AND DISCUSSION ITEMS

- 12.1 Report and discussion on the Annual Williams/Valenzuela Legislation Status Report.

Report by Michael Watkins, Superintendent, County Office of Education.

Michael Watkins spoke about the Williams status and offered a positive report on the District meeting the Williams settlement requirements. Principals and custodians have been compliant and concerns have been timely addressed. He commented about the Fitness 4 Life program and how the COE recommended it for a Governor's award.

- 12.2 Report and discussion on Comprehensive Accountability Framework.

Report by Dorma Baker, Superintendent.

Connie Kamm, Senior Professional Development Associate of Leading and Learning, spoke about the Accountability Design Team (ADT) assembled by the Superintendent with the purpose to respond to State mandates to increase student achievement. The accountability framework is built around the District's mission and goals. She commented on the challenges and struggles which seem to be replicated throughout the country and on increasing accountability, combined with the rigor of living in this new era. She mentioned that collaboration leads to improved learning and noted that the key to effective schools is aligning adult actions with student results.

12.3 Report and discussion on School Based Consolidated Health Council/Wellness Policy.
Report by Cathy Stefanki, Assistant Superintendent, Educational Services.

Cathy Stefanki offered a brief background on the creation of the District Wellness policy in 2006, which is designed to support the development of healthy students and staff through healthy nutrition and physical activity. The report included information regarding community partnerships, such as Salud Para La Gente/Go For Health, Jovenes Sanos, Dientes, and Second Harvest Food Bank. Information regarding available health services for students, school food choices, and physical education was provided to the board. Rich Puente, Healthy Start Coordinator, Nicole Meschi, Food Services Director, and Dr. Jose Chivras, of Salud Para La Gente, presented information regarding their commitment to the health and wellness of this district's community.

12.4 Report and discussion on Safe School Healthy Students Report.
Report by Linda Perez, Director, PVPSA.

Linda Perez and Abbie Stevens of ASR presented the final report on the Safe Schools/Healthy Students program. The program was established with a 3-year grant received with the purpose to promote mental health of students, to enhance academic achievement, to prevent violence and substance abuse, and to create safe and respectful climates through various partnerships. Linda Perez commented on the types of services that the program offered for students, including school yard monitors, Safety Resource Officer, Dedicated Probation Officer, and safety equipment, amongst many others. The report offered statistics regarding the increase in awareness regarding alcohol and other drugs abuse. In addition, they reported on the many preventative measures the program developed, including violence prevention. They addressed information on mental health services as well as on the importance of family connectedness.

At the end of the presentation, Superintendent Baker presented Linda Perez a plaque in recognition of her work and dedication with the community's youth; Linda is retiring.

Trustee Wilson moved to extend the meeting past 10:30 until 12:30 if necessary. The motion was seconded by Trustee Turley. The motion passed unanimously.

12.5 Report and discussion on the appointment of Joint Representative to the Personnel Commission: Gary Smith.

Report by Dr. Albert J. Roman, Assistant Superintendent, Human Resources. 2 min.

Pam Shanks, Director of Classified Personnel, reported that the Personnel Commission had appointed Gary Smith as the joint representative.

13.0 REPORT, DISCUSSION AND POSSIBLE ACTION ITEMS

13.1 Report and update on District Budget and possible action on Stimulus Funds.

Report by Mary Hart, Associate Superintendent.

Mary Hart informed the Board that the Legislative Analyst Office presented their budget with a projected \$6.3 billion dollar deficit for 2009-10 and \$14.7 for 2010-11, for a total of \$21 billion dollars. This means that the District can expect a challenging financial situation. As a recommended action, Mary Hart asked the Board for direction on what to do with the approximate \$1.5 million stimulus funds remaining balance. It was noted that the State provided guidelines as to how those funds could be used but that they were not directives for allocating the money.

Public comment

Bill Beecher, community member, commented on the budget and benefits and noted that there are few alternatives for reductions to the budget.

Dr. Nancy Bilicich, Director of Adult Education, commented about stimulus money and the confusion about the state's formula and the portion that could be assigned to Adult Education.

Trustee Osmundson moved to allocate at least \$100,000 to Adult Education. Trustee Nichols seconded the motion.

Board participated with comments.

The motion failed 1/6/0 (Keegan, Turley, De Rose, Wilson, Yahiro, Nichols dissented).

Trustee Yahiro moved to have the funds allocated to the general fund. Trustee Wilson seconded the motion. The motion passed unanimously.

13.3 Report, discussion and possible action on Resolution #09-10-07, Supplemental Early Retirement Program (SERP) Incentive for Certificated Non-Management.

Report by Mary Hart and Dr. Albert Roman.

This item was tabled.

13.4 Report, discussion and possible action on Resolution #09-10-08, Supplemental Early Retirement Program (SERP) Incentive for Certificated and Classified Management.

Report by Mary Hart and Dr. Albert Roman.

This item was tabled.

13.5 Report, discussion and possible action to approve Provisional Internship Permit for Steven Hoy, Robin Hubert, and Carmen Becerra.

Report by Dr. Albert J. Roman, Assistant Superintendent.

Trustee Wilson moved to approve this item. Trustee Keegan seconded the motion. The motion passed unanimously.

13.6 Report, discussion and possible action to approve Teacher on Waiver: Robin Minnis.

Report by Dr. Albert J. Roman, Assistant Superintendent.

Trustee Wilson moved to approve this item with a correction to the number of years working. Trustee Nichols seconded the motion. The motion passed unanimously.

13.7 Report, discussion and possible action to approve Teacher on Waiver: Jason Trexler.

Report by Dr. Albert J. Roman, Assistant Superintendent.

Trustee Wilson moved to approve this item. Trustee Nichols seconded the motion. The motion passed unanimously.

14.0 POLICIES - ONGOING

The following are updates to existing policies are recommended by CSBA and they have been reviewed by District Administration.

14.1 Approve Updated Policy #0520.2, Title I Program Improvement Schools and approve Updated Policy #0520.3, Title I Program Improvement Districts.

This item was tabled and the Board requested to place under action items to avoid confusion.

15.0 GOVERNING BOARD AND SUPERINTENDENT COMMENTS/REPORTS

Trustee Yahiro expressed his concern regarding the phone survey regarding the parcel tax and the seemingly negative tone towards the district some of the questions have. He noted that WHS football defeated PVHS and are MBL finalists.

Trustee Wilson noted that AHS volleyball girls won their way to semi-finals.

Trustee Turley asked that for the upcoming meetings regarding the budget if board members could provide a list of what can be cut to get to the \$7.5 million dollar reduction that is needed to balance the budget.

16.0 UPCOMING BOARD MEETINGS/REMAINING BOARD MEETINGS FOR 2009

All meetings, unless otherwise noted, take place at the District Office Boardroom, 292 Green Valley Road, Watsonville, CA. Closed Session begins at 6:00 pm; Open Session begins at 7:00 pm.

		Comment
November	▪ 18	
December	▪ 2 ▪ 9 Annual Organization Mtg. ▪ 16	▪ Study Session: Budget ▪ Approve 1 st Interim Report ▪ Reg. mtg with Budget focus

17.0 ADJOURNMENT

There being no further business to discuss, the meeting of the Board was adjourned at 12.02 am on November 19, 2009.

Dorma Baker, Superintendent

PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No: 8.3

Date: December 9, 2009

Item: Board of Trustees 2010 Board Meeting Schedule

Overview: Attached, for your review and consideration, is the proposed meeting schedule for the Board for the year 2010.

Recommendation: Review and approve.

Prepared By: Dorma Baker, Superintendent

Superintendent's Signature:

Mary Jo for Dorma Baker



Board Meeting Schedule 2010 - DRAFT

		Comment
January	▪ 20	▪
February	▪ 3 ▪ 17 ▪ 24	▪
March	▪ 3 ▪ 17 (if necessary) ▪ 24	▪ Approve 2 nd Interim Report
April	▪ 14 ▪ 28	▪
May	▪ 12 ▪ 26	▪ Approve 3 rd Interim Report
June	▪ 9 ▪ 23	▪ 09-10 Budget Adoption
July	▪	▪ No Meetings Scheduled
August	▪ 11 ▪ 25	
September	▪ 8 ▪ 22	▪ Unaudited Actuals
October	▪ 13 ▪ 27	
November	▪ 17	▪
December	▪ 8 Annual Organization Mtg. (Election Year)	▪ Approve 1 st Interim Report

PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No: 11.3

Date: December 9, 2009

Item: Approve with gratitude donation of \$1,047.00 from Corralitos Community Free Methodist Church for Together in the Park Program in Corralitos.

Overview: The Board acknowledges and recognizes the generosity of community members and businesses. Their commitment to education is evident through their contribution.

Recommendation: Approve with gratitude this donation.

Prepared By: Dorma Baker, Superintendent

Superintendent's Signature:

Dorma Baker (Signature)



Watsonville/Aptos Adult Education

A Division of the Pajaro Valley Unified School District

Administration

(831) 786-2160

Dr. Nancy A. Billich
Director

Cynthia Stark
Assistant Director

Departments

Adult Basic and
Secondary Education

Career and Technical
Education

Community
Education

English as a Second
Language

Lifelong Learning

Parent Education

District
Administration
(831) 786-2100

Dorma Baker
Superintendent

Mary Hart
Associate
Superintendent

Assistant
Superintendents

Dr. Albert Roman
Human Resources

Yida Noguera
Elementary Instruction

Cathy Stefanki
Secondary Instruction

November 30, 2009

Corralitos Community Free
Methodist Church
26 Browns Valley Road
Watsonville, CA 95076

Dear Friends,

This letter is to thank you for your generous donation of \$1,047.00 towards our Together in the Park program in Corralitos.

The Pajaro Valley Unified School District is a local government agency organized and operated pursuant to the California Government and Education Codes. The Internal Revenue Service does not issue a Section 501(c)(3) letter of exemption to such government organizations since they are defined under Internal Revenue Code Section 115 as automatically tax-exempt organizations under current law.

Charitable contributions to the Pajaro Valley School District are tax-deductible under the provisions of Section 170(c)(1) of the Internal Revenue Code rather than Section 170(c)(2).

The District's EIN is #77-0375541.

On behalf of the staff, the parents, and especially the students of the school, now and in the future, thank you for the support which you are providing. Your generosity is greatly appreciated.

Sincerely,

Dr. Nancy A. Billich
Director



California Adult Schools
LEARNING FOR LIFE



Green Valley Center: 294 Green Valley Road, Watsonville CA 95076 Telephone: (831) 786-2160/Fax: (831) 722-2749
Institute of Language and Culture: 320 Rodriguez Street, Watsonville, CA 95076 Telephone: (831) 786-8225/Fax: (831) 786-9420
Website: www.waae.pvUSD.net



Corralitos Community Free Methodist Church

26 Brown's Valley Road
Watsonville CA 95076
831-722-4363

WELLS FARGO BANK, NA
FREEDOM CA 95019
11-24/1210

4221

11/21/2009

Pay to the
Order of

Watsonville/Aptos Adult Education

\$ 1,047.00

One Thousand Forty-Seven and 00/100*****

Dollars

Watsonville/Aptos Adult Education
294 Green Valley Road
Watsonville CA 95076

Karen Louder
Dana A. H.

donation: Together in the Park-Aldridge Park

⑈004221⑈ ⑆121000248⑆ 0590046728⑈

Corralitos Community Free Methodist Church

Watsonville/Aptos Adult Education

Other Expenses: Misc. In & Out Expenses Together in the Park-Aldridge Park

11/21/2009

4221

1,047.00

Checking Account

donation: Together in the Park-Aldridge Park

1,047.00

PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No: 11.4

Date: December 9, 2009

Item: Resolution #09-10-11, Regarding Importance of Participation in the 2010 Census

Overview: Attached, for your review and consideration, is a resolution that highlights the importance of an accurate 2010 Census count for our community to garner needed resources.

Recommendation: Review and approve.

Prepared By: Dorma Baker, Superintendent

Superintendent's Signature:

Dorma Baker (AA)

**PAJARO VALLEY UNIFIED SCHOOOL DISTRICT
A RESOLUTION ON THE IMPORTANCE OF PARTICIPATION IN THE
2010 CESUS**

WHEREAS, the decennial census takes place every 10 years to count the residents of each state and to help identify where to allocate over \$400 billion in federal funds to states; and

WHEREAS, to ensure fair Congressional representation by determining how many seats each state will have in the U.S. House of Representatives, as well as the redistricting of state legislatures, county boards of supervisors and city councils, and voting districts; and

WHEREAS, an accurate census count is critical to the well-being of every community in determining where services are most needed, and to provide important federal and state funds for school districts; and

WHEREAS, it is vital for all local superintendents, principals, teachers and parent organizations to relay the importance of the census to families and community members to ensure everyone is counted, therefore maximizing political representation and funding appropriations within our school district and county; and

WHEREAS, Pajaro Valley Unified School District supports the goals and ideals for the 2010 census and will lend its support to the education community in being responsive to federal and state census liaisons;

NOW, THEREFORE, BE IT RESOLVED that Pajaro Valley Unified School District recognizes the long-term effects of an accurate and complete census count for garnering much-needed resources for our state; and

BE IT FURTHER RESOLVED that we stand with all school districts and county offices of education to be counted on the official census day of April 1, 2010.

Passed and adopted by the Board of Trustees of the Pajaro Valley Unified School District, County of Santa Cruz, State of California, this 18 day of November, 2009, by the following vote:

Ayes: _____

Noes: _____

Abstain: _____

Absent: _____

Attest: _____
Secretary to the Board of Trustees

President, Board of Trustees



PAJARO VALLEY UNIFIED SCHOOL DISTRICT

Board Agenda Backup

Item No: 11.5

Date: December 2, 2009

Item: Stimulus Contract CA Department of Rehabilitation and Special Services Transition Partnership Program (TPP)

Overview: Special Services TPP Contract has been awarded a two year contract totaling \$54,460.00 to assist with providing special education students with vocational and/or career development information and training leading to gainful employment or post secondary education.

This is a budget neutral program ensuring that all personnel, student services, curriculum and instructional materials used in this program are funded directly through the stimulus contract.

Recommendation:
Approval

Budget Considerations: Stimulus Grant

Funding Source: California Department of Rehabilitation

Budgeted: Yes: ☐ No: ☐

Amount: \$

Prepared By: Dea Pretzer, Program Director Special Services

Superintendent's Signature:

May 1st for Donna Baker

STANDARD AGREEMENT

STD 213 (Rev 06/03)



AGREEMENT NUMBER

27532A

REGISTRATION NUMBER

1. This Agreement is entered into between the State Agency and the Contractor named below:

STATE AGENCY'S NAME

Department of Rehabilitation

CONTRACTOR'S NAME

Pajaro Valley Unified School District

2. The term of this Agreement is: September 1, 2009 through September 30, 2010
3. The maximum amount of this Agreement is: \$ 54,460.00
ARRA Contract
4. The parties agree to comply with the terms and conditions of the following exhibits which are by this reference made a part of the Agreement.

CFDA # Basic Support 84.390A Award # H390A090005

Exhibit A – Scope of Work	5 pages
Exhibit B – Budget Detail and Payment Provisions	4 pages
Attachment 1, Program Budget and Narrative	4 pages
Exhibit C* – General Terms and Conditions	GTC - 307
Exhibit D – Special Terms and Conditions (Attached hereto as part of this agreement)	6 pages
Exhibit E – Additional Provisions – Subvention Agreements	2 pages
Exhibit F – Cooperative/Case Services Agreements	3 pages
Exhibit G – Supplemental Terms and Conditions for Using ARRA Funds	3 pages

Items shown with an Asterisk (*), are hereby incorporated by reference and made part of this agreement as if attached hereto.
These documents can be viewed at <http://www.ols.dgs.ca.gov/Standard+Language/default.htm>

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

CONTRACTOR

CONTRACTOR'S NAME (if other than an individual, state whether a corporation, partnership, etc.)

Pajaro Valley Unified School District

BY (Authorized Signature)

DATE SIGNED(Do not type)

PRINTED NAME AND TITLE OF PERSON SIGNING

Dorma Baker, Superintendent

ADDRESS

SELPA/SSO – 294 Green Valley Road, Watsonville, CA 95076

STATE OF CALIFORNIA

AGENCY NAME

Department of Rehabilitation

BY (Authorized Signature)

DATE SIGNED(Do not type)

PRINTED NAME AND TITLE OF PERSON SIGNING

Candace Gilmore, Chief, Financial Mgmt Branch, Admin Services Division

ADDRESS

721 Capitol Mall, 6th Floor, Sacramento, CA 95814**California Department of General
Services Use Only**☐ Exempt per:



Board Agenda Backup

Item No: 14.1

Date: December 9, 2009

Item: Report, discussion and possible action on updated District Budget Information and the Fiscal Stability Plan

Overview: Information will be presented regarding the current state of the districts budget. The updated information is not available at the time of this writing but will be presented at the meeting. In addition, the potential reductions for development of the Fiscal Stability Plan will be discussed.

Attached is the list of Unrestricted General Fund items to be reviewed and discussed. The list also includes information on funds that have not been swept but do fall under the category of Tier 3. Also, listed are the savings for negotiated items. Administration has included a section that list the Salaries and Benefits for Special Education and Transportation under Unrestricted as well as this affects the Unrestricted General Fund due to encroachment.

I have also attached the document used currently for staffing particular positions as changing ratios is potential item for discussion.

Recommendation: Administration request the board accept the reports and direct staff on the next steps for the Fiscal Stability Plan.

Budget Considerations:

Funding Source: Discussion on General Fund

Budgeted: Yes: No:

Amount:

Associate Superintendent: Mary Hart

Superintendent's Signature:

Mary Hart for Donna Baker

2009-2010

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

		Unrestricted	Unrest. FTE	Restricted	Restr. FTE	Description	
Elementary							
1	Elem. AP	265,416	2.56	564,009	5.44		x
2	CSR G.1	670,000	25			30:1	x
3	CSR G 2	670,000	25			30:1	x
4	Loading to Max	420,000	6			grds 4-6 at 33 (max = 34, currently using 31). Will cause more combo classes	x
5	OA hrs	210,000	7			3.5 hrs	x
6	LMT	245,000	7			3.5 hrs (has been determined can be funded with Title 1 for one more year)	x
7	Office Managers	1,016,000	16			Would leave no Site Clerical	x
8							
9							
Middle School							
11	MS Ap	521,000	4.5	173,512	1.5	Multi funded with TII	x
12	MS Counselors prg 1506	523,199	6				x
13	Loading to Max	980,000	14			Grd 6-8 at 34 (max = 35, currently using 30)	x
14	SRO Contrib	65,035				Reduction would maintain HS only. Still involves contribution for HS but recommended to continue	x
15	MS LMT	338,481	6				x
16	MS Campus Superv	238,253	4.5				x
17							
18							
19							

2009-2010

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

C:\Documents and Settings\mary_hart\My Documents\10-11 Crisis\board\12-9-09\Crisis 12-2-09 updated

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

C:\Documents and Settings\mary_hart\My Documents\10-11 Crisis\board\12-9-09\Crisis 12-2-09 updated

C:\Documents and Settings\mary_hart\My Documents\10-11 Crisis\board\12-9-09\Crisis 12-2-09 updated

2009-2010

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

82	Sweepable Revenues								
83	Adult Ed GF Revenue		2,300,000					REVENUE (AE also has approx: \$341K in Fed/State and Fee based programs)	
84	Supplemental Hourly Ext.Irn		2,292,000					REVENUE (EXT LRN also has approx: \$9.5 mil in Fed/State grants including carryover)	
85	Deferred Maintenance		700,000					State Match for one year (recommend 2 yrs)	
86	Counselors Grd 7-12		450000					REVENUE (the counselor cost is listed above)	
87	GATE		126000					REVENUE (Currently pays for 1.0 FTE Coordinator and and some supplies and services)	
88	Peer Assistance and Review		64000					REVENUE (Funds pay for Peer Assistance and Review activities for Teachers)	
89	CBET = Adult Ed Funding		232000					REVENUE (Funds currently supporting CBET and other programs in AE)	

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

Negotiated:				
Release Time	898,568.00	12.3		
MS Dept Head Stipend	94,968			6
HS Dept Head Stipends	190,656			15
Counselor number of days				Per Contract Counselors work days : Academic HS. 15 days, Academic MS 12 days, Career 12 days
Psychologist number of days				Per Contract Psychologist work days: 12 additional days
Prog Spec. days				Per contract Prog. Specialist work days: 12 additional days. (chg days from 196 to 190. Four positions (\$10,788)
cert step	1,054,184.00	unrest	rest	Totals
class step	83,954.00			373,119.00 1,427,303.00
mgmt step	89,553.00			279,783.00 363,737.00
	1,227,691.00			78,859.00 168,412.00
				731,761.00 1,959,452.00
CERT 1%	448,481.00			
class 1%	101,647.00			174,060.00 622,541.00
mgmt 1%	81,375.00			182,953.00 284,600.00
	631,503.00			56,700.00 138,075.00
				413,713.00 1,045,216.00
cert 10% hw	706,631.00			
class 10% hw	268,278.00			234,074.00 940,705.00
mgmt 10% hw	93,012.00			604,805.00 873,083.00
	1,067,921.00			80,653.00 173,665.00
				919,532.00 1,987,453.00
Cert per day	267,111.00			
Class per day	47,317.00			137,541.00 404,652.00
Mgmt per day	44,453.00			123,400.00 170,717.00
	358,881.00			53,649.00 98,102.00
				314,590.00 673,471.00
With SE and Trans reflected with Unrestricted				
Per day w/SE and trans unrestricted		unrest	rest	
cert step	1,258,932.00			168,371.00 1,427,303.00
class step	194,089			169,648 363,737.00
mgmt step	91,638			76,774 168,412
	1,544,659.00			414,793.00 1,959,452.00

2009-2010

LIST GENERAL FUND ITEMS THAT ARE NON-NEGOTIABLE AND LIST OF NEGOTIABLE ITEMS

Per day w/SE and trans unrestricted			
CERT 1%	547,076.00	75,465.00	622,541.00
class 1%	181,079.00	103,521.00	284,600.00
mgmt 1%	86,986.00	51,089.00	138,075.00
	815,141.00	230,075.00	1,045,216.00
Per day w/SE and trans unrestricted			
cert 10% hw	815,600.00	125,105.00	940,705.00
class 10% hw	499,229.00	373,854.00	873,083.00
mgmt 10% hw	103,638.00	70,027.00	173,665.00
	1,418,467.00	568,986.00	1,987,453.00
Per day w/SE and trans unrestricted			
Cert per day	324646	80006	404652
Class per day	82642	88075	170717
Mgmt per day	47625	50477	98102
	454913	218558	673,471.00

2009-2010 PVUSD Staffing Ratio Formulas

	ELEMENTARY SCHOOL	MIDDLE SCHOOL	HIGH SCHOOL
Principals [1330 -- 1000]	1.0 FTE per school	1.0 FTE per school	1.0 FTE per school
Assistant Principals [1340 -- 1000]	350-400=.20 FTE 401-500=.25 FTE 501-600=.30 FTE 601-700=.35 FTE Over 700 =.40 FTE Minimum AP per School .50	Less than 700=1.0 FTE 701-775=1.1 FTE 776-850=1.2 FTE 851-925=1.3 FTE	1.0 FTE per 800* pupils * Any school over 3,000 is allowed to convert one Assistant Principal to an Associate Principal.
Counselors [1220 -- 1506]	None	1.0 FTE per school	1.0 FTE per 475 pupils
Teachers [1111 -- 1000/1003]	K-3 19.5:1 4-6 31:1	30:1	30:1
Stipends [1310, 1311, 1312, 1320, 1350, 1360]		6 -- Department Chairs 1 -- Athletic Director 1 -- Activity Director 1 -- Flag Football 17 -- Coaches	12 + 3 Department Chairs 1 -- Athletic Directors 1 -- Ass't Athletic Director .5 -- Activities Director 1 -- Cheerleader Advisor 15 -- Head Coaches + 1 LaCrosse 27 -- Coaches
Clerical Support [2410, 2420, 2430 -- 1000] <i>Minimum Level Clerical Staffing Includes</i>	Office Manager (1.0 FTE) Office Assistant 2 (3.5 hrs) Minimum 1.0 FTE plus 3.5 hr OA	1.0 FTE per 275 pupils Office Manager Attendance Specialist Minimum 2.0 FTE	1.0 FTE per 300 pupils Office Manager Attendance Account Specialist Registrar
Campus Supervisor [2910 -- 1000]	\$5,000 per School	1.0 FTE per 910* pupils *Minimum .75 FTE	1.0 FTE per 520 pupils
Library Media Technician [2202 -- 1500]	3.5 hr per School	1.0 FTE per School	1.0 FTE per School
Athletic Director Activity Director			1.0 FTE per School
Computer Support Specialist [2950]			

Custodians staffed by formula using Teaching Personnel, Total Pupils, Total Square Feet, Total Acres of Improved Land

Flexibility is provided to sites to make adjustments within total staffing allocations for both classified and certificated staffing assuring that minimum levels of staffing are maintained and adjustments are properly documented.

Notes from DELAC December 1, 2009

- 1.0 What is the total budget?
 - 1.1 We will get it the total back to you at the next DELAC meeting.
- 2.0 With the reductions you are making every year, what are the quality of services you are going to provide to our kids every year?
- 3.0 What will the district be doing with the stimulus money? What is QEIA and how is it used?
 - 3.1 For our lower performing schools, QEIA which is a result of an agreement with the state, provides money to reduce class size at some of our schools. The money continues approximately 3 million dollars for several years.
- 4.0 I support class size. I am concerned that the classes remain small as it supports my child's learning.
- 5.0 Is the lottery really that small? It isn't much for our schools.
- 6.0 How much time have you spent negotiating with the unions?
- 7.0 Do we need to borrow money to pay our bills?
- 8.0 Are you going to let us know before Dec. 16 what the cuts will be and how it will impact our students?
 - 8.1 Refer to the internet for any proposal and or decisions made regarding budget cuts
 - 8.2 There is also another board meeting on the 16th, to get up to date information
 - 8.3 All of the meetings provide translations and we encourage all parents to come and participate in the process.
- 9.0 Besides talking to the legislators, what else can we do?
 - 9.1 Keep yourselves informed and keep up with the state budget
- 10.0 What about the other grades will they be affected with class size? Increases?
 - 10.1 Classes other than QEIA will increase to maximum numbers
- 11.0 If you have more questions, please write them down and send in to the Superintendent's office or Business services office attention to Mary Hart or Elena Fajardo via email or by phone.
- 12.0 What job positions will be affected by these cuts?
 - 12.1 It's a good question. It all depends on the state budget how much and what positions we will reduce.

- 13.0 Who are classified and certificated employees?
- 13.1 Certificated are teachers; custodians, secretaries etc. are classified; administrators do not negotiate nor have a union.
- 14.0 Are there high school programs that students could volunteer to be aides etc.
- 14.1 This is a good idea, however there are programs that need special skills to support the special needs of the students.
- 14.1 It is also illegal to replace positions that have union employees that have been laid off
- 15.0 What else can we do?
- 15.1 We can write a template for parents to use to send to their legislators. One school in the district did organize their parents to send letters. Parents need to send the letters as the district can send it for them. We can also help parents send a letter from DELAC.
- 15.2 When meeting with your school principal, let s/he know that you are writing a letter to support schools and attending DELAC to gather more information
- 15.3 Governor's presentation on budget is Jan. 12, we will have more information to share at this time. Send your letters especially your reactions after the governor's presentation.
- 16.0 It is important to let parents know the starting time of the district meetings. The starting time was communicated differently for start times.
- 16.1 With vacation there was little opportunity to send another notice about the meeting tonight.
- 17.0 What happens to the rights of the students as the unions need to negotiate especially less days for students in school?
- 17.1 The goal is to maintain the most of services possible for the students.
- 17.2 The union helps with a contract that restricts the numbers of students in classes. There are also laws that dictate the numbers in some classes.
- 17.3 Letters from the district, principals and parents should be organized at the same time.
- 17.4 Everyone benefits from organizing together especially the students.
- 17.5 It is important that parents volunteer in the classes every week, as students and teachers benefit.
- 17.6 Publicize mtg via media
- 17.7 Distribute flyers closer to the date of the event

- 17.8 Give an explanation of what the meeting will cover
- 17.9 Offer more mtgs in Span. More parents will attend



Board Agenda Backup

Item No: 14.2

Date: December 9, 2009

Item: Medical, Dental and Vision Actuarial Update

Overview: Total Compensation Systems, Inc. (TCS) was asked to estimate required funding rates for Pajaro Valley USD's self-funded medical, dental and vision plans for the period July 1, 2009 to June 30, 2010. This estimate of required funding rates is intended to assist Pajaro Valley USD in complying with the actuarial cost estimate requirements of California Education Code Section 17566. It should be emphasized that this analysis only relates to self-funded benefits. To the extent other benefits are made available in conjunction with the medical plan that are not self-funded (e.g. mental health benefits), plan costs will be higher than what is shown in this report.

The attached actuarial reports are used to determine the amount of funds that should be in reserves for future claims that are considered incurred but not paid (IBNP). In compliance with the reported advised reserves the district has set up reserves for IBNP in each category as listed below:

Medical:	\$5,049,175
Dental:	386,694
Vision:	61,131

Recommendation: Administration request the board accept the reports as presented.

Budget Considerations:

Funding Source: Self Insurance fund 67

Budgeted: Yes: X No:

Amount:

Prepared By: Mary Hart, Associate Superintendent

Associate Superintendent: Mary Hart

Superintendent's Signature: Mary Hart for Donna Baker

**Pajaro Valley Unified School District
Estimate of Self-Funding Rates
Medical Plan**

prepared by Total Compensation Systems, Inc.

Date: October 9, 2009

*Plan year:
July 1, 2009 to June 30, 2010*

**Pajaro Valley Unified School District
Estimate of Self-Funding Rates
Medical Plan
Prepared By
Total Compensation Systems, Inc.**

Introduction

Total Compensation Systems, Inc. (TCS) was asked to estimate required funding rates for Pajaro Valley USD's self-funded medical plan for the period July 1, 2009 to June 30, 2010. This estimate of required funding rates is intended to assist Pajaro Valley USD in complying with the actuarial cost estimate requirements of California Education Code Section 17566. It should be emphasized that this analysis only relates to self-funded benefits. To the extent other benefits are made available in conjunction with the medical plan that are not self-funded (e.g. mental health benefits), medical plan costs will be higher than what is shown in this report.

Methodology

Below is a summary of the calculations used to estimate the required funding rate.

Paid Claims July 1, 2008 to June 30, 2009	\$24,187,601
Plus: Change in IBNP claims June 30, 2008 to June 30, 2009	\$836,294
Plus: Demographic adjustment	\$0
Plus: Adjustment for plan changes	\$0
Minus: adjustment for large claims July 1, 2008 to June 30, 2009	\$444,160
Equals: Estimated Incurred Claims July 1, 2008 to June 30, 2009	\$24,579,735
Divided by: Employee months of coverage July 1, 2008 to June 30, 2009	30,927
Equals: Estimated monthly incurred claims July 1, 2008 to June 30, 2009	\$794.77
Times: Trend adjustment 12.0 months at 8.0%	1.0800
Equals: Projected monthly incurred claims July 1, 2009 to June 30, 2010	\$858.35
Plus: Administrative Expenses July 1, 2009 to June 30, 2010	\$45.73
Plus: Stop-loss premiums July 1, 2009 to June 30, 2010	\$52.65
Plus: Claim fluctuation margin at 5.0%*	\$42.92
Equals: Projected per capita plan cost July 1, 2009 to June 30, 2010	\$999.64

* This margin is only necessary if Pajaro Valley USD does not have funds specifically earmarked to cover claim fluctuation.

Following is a more detailed discussion of the actuarial assumptions and methods. Materials relied on in estimating costs are listed in Appendix A.

Incurred But Not Paid (IBNP) claims

The increase in IBNP claims is calculated by subtracting an estimate of outstanding claims at June 30, 2008 from an estimate of claims still outstanding at June 30, 2009. The estimate of claims outstanding at June 30,

Total Compensation Systems, Inc.

2009 is based on an actuarial method known as the Bornhuetter-Ferguson Method. The proportion of claims expected to be outstanding is based on completion factors derived from actual District claim lag data. Using this method, the IBNP claims are estimated as the sum, for all prior months, of: Expected Incurred Claims for the month x Proportion of Claims Expected to Be Still Outstanding

For the estimate of IBNP claims at June 30, 2008, claim lag data was used to the extent possible to determine actual claims paid during the experience period that were incurred prior to July 1, 2008. Where claim lag data was not available, the Bornhuetter-Ferguson Method was used to estimate claims paid during the experience period that were incurred before July 1, 2008. The Bornhuetter-Ferguson Method was also used to estimate claims paid *after* the end of the experience period that were incurred before the experience period.

Using the above methodology, we estimated IBNP claims as shown in the following table: This estimate of "Expected IBNP Claims" was used to project the monthly cost per employee. For accounting purposes, Pajaro Valley USD should include allowances for expenses, fluctuation margin, uncashed checks, etc.

While it is outside the scope of this report to determine the amount of uncashed checks, the following table recommends a reasonable reserve for IBNP expenses and IBNP fluctuation margin. We also have shown an estimate of the claim fluctuation margin if enrollment is the same during the upcoming plan year as it was during the experience period. This allows an estimate of the total medical plan required reserves. This figure should be viewed as a minimum. It would not be unreasonable to hold twice the amount shown below as IBNP fluctuation margin and/or claim fluctuation margin.

	June 30, 2008	June 30, 2009
Estimated IBNP Claims	\$1,845,363	\$2,681,657
Estimated Run-out Expenses	N/A	\$235,715
Estimated IBNP Fluctuation Margin	N/A	\$804,497
Estimated Claim Fluctuation Margin*	N/A	\$1,327,306
Total Required Reserves	N/A	\$5,049,175

Demographic Adjustment

The claim experience on which cost projections are based reflects the employees and dependents covered during the period July 1, 2008 to June 30, 2009. The demographics of the group that will be covered from July 1, 2009 to June 30, 2010 may be different from the demographics of the group covered in the past. The demographic adjustment reflects any information we were given about material differences between the demographics of the group to be covered in the future and the group that was covered in the past.

We had no information to indicate that any demographic adjustment is necessary.

Adjustment for Large Claims

The adjustment for large claims is based on paid medical claim data. If some of these large claims were incurred prior to the experience period and were included in the June 30, 2008 IBNP reserves, this adjustment may redundantly reduce incurred claims. Without getting a list of all claim payments making up the adjustment for large claims, it's not possible to determine a more accurate adjustment.

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Adjustment for Plan Changes

The claim experience used for cost projections reflects the medical plan in effect at that time - including the effect of any plan changes that occurred during that period. If the plan design for the projection period is different from the plan reflected in the claim experience, it is important to adjust the prior claim experience.

We had no information of any plan change that would necessitate adjusting prior claim experience.

Trend

Trend is one of the most important assumptions and is also one of the most difficult to accurately estimate. Trend includes the effect of external factors that influence health plan costs. These external factors include inflation, changes in claim frequency (i.e. utilization), cost shifting among health care payors and new technology.

We determine trend factors by looking at past trend and predicting how future trend may change. Our analysis of future trend considers each of the above external factors individually.

At any time, a major component of trend is inflation. Inflation is historically measured by the Consumer Price Index (CPI). However, the CPI measures increases in the price of housing, transportation, food and other goods and services not covered by a typical group health plan.

The federal Department of Labor also publishes a Medical CPI. The Medical CPI reflects the increase in price for health care goods and services. The Medical CPI includes medical goods and services, dental and vision care. Like the overall CPI, the Medical CPI is also *not* a good indicator of the effect of inflation on medical care. In order to use the Medical CPI to estimate the impact of inflation, it is necessary to adjust the Medical CPI. Goods and services that are not covered by a typical group medical plan (e.g., non-prescription drugs, dental care, vision care, etc.) must be removed. Also, the CPI weights need to be adjusted to reflect the proportion of each type of medical expense in group medical claims. Adjusting the Medical CPI in this manner results in recent inflation increases based on CPI figures of 7.0% for medical.

These inflation increases would apply directly to group medical plans that have no deductibles and no "stop-loss" provisions (i.e. the coinsurance level increases to 100% once eligible health care expenses reach a certain level). For a plan that has a deductible and/or stop-loss provision, the burden of inflation is disproportionately borne by the plan sponsor. The process that results in plan sponsors assuming a disproportionate share of inflation's impact is commonly known as "deductible leveraging." The effect of deductible leveraging depends on the plan design, the level of claims for a plan, and the inflation rate.

Recent trend surveys show that indemnity medical plans have experienced trend of 8.0% to 14.0% on average. This means that the components of trend other than inflation have been contributing from 1.0% to 7.0% of medical plan costs in addition to inflation and deductible leveraging.

In applying trend factors, it is important to note that trend involves a retrospective element as well as a prospective element. The claim experience from July 1, 2008 to June 30, 2009 must be adjusted for trend to a current date. This adjustment reflects past trend which can be estimated to a large extent based on historical CPI data. It is also necessary to project claims from a current date to the July 1, 2009 to June 30, 2010 plan year. In projecting claims, trend can only be guessed by extrapolating from past data.

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Taking into consideration the different components of trend and the combined retrospective and prospective element of cost projections, following is the range we believe to be reasonable for estimating future medical plan costs.

	Type of Plan	
	<u>Indemnity</u>	<u>Pre-Paid</u>
Medical Trend Range:	6.0% to 12.0%	7.0% to 13.0%

It should be noted that "scheduled" plans may have trends much lower than the above trend ranges if the scheduled benefits are significantly below prevailing charges. It is also important to note that pre-paid plan trends are sometimes lower because these plans typically do not have much, if any, deductible leveraging. Other reasons for potentially lower pre-paid plan trends are: better claim management; reduced cost shifting through contracting; and lower inflation applied to the larger proportion of *pre-paid* premiums attributable to administrative expense.

In addition to plan-related trend effects, there are also market-related effects. For example, administrators and providers may adjust prices upward to improve profit margins. Prices may not increase as quickly if, for example, providers are competing for market share and are willing to contract for lower fees under managed care plans. Market-related factors can have a dramatic effect on trend rates at times.

In projecting future medical plan costs, it is usual to project claims for a period that is longer than one year. In calculating trend factors for periods other than one year, we have "compounded" the effect of the trend factor. To compound the trend rate, we take the sum of one plus the annual trend rate and raise the sum to the $m/12$ power. In calculating this exponent, m is equal to the number of months claims are being projected.

Margin

Projected incurred claims are intended to represent the "expected" level of claims. Medical claims are subject to statistical principles and, even if all actuarial assumptions are accurate, there is about a 50% chance that claims will exceed the projected claim level and a 50% chance claims will be less than the projected level.

We believe that it is prudent to prepare for the likelihood that statistical fluctuation or inevitable errors in actuarial assumptions will cause claims to exceed the expected level. We have included a 5% "margin" in our cost estimates. Should Pajaro Valley USD already have funds earmarked for margin, it would not be necessary to include margin in funds budgeted for benefits. The margin indicated in this report should be viewed as a minimum level.

Administrative Expenses

Administrative expenses were estimated based on information available at the time the cost estimates were prepared. It is possible that fees charged to Pajaro Valley USD for the July 1, 2009 to June 30, 2010 plan year have been finalized or adjusted since the cost estimates in this report were prepared. Under normal circumstances we would not expect any material error from using *preliminary* administration fees.

Administrative expenses have been estimated on an "incurred" basis (as have claim costs). Using an

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incurred basis provides cost estimates that are consistent with current or future Governmental Accounting Standards Board (GASB) accounting standards related to self-funded plans. The following table shows the components of administrative expenses included in our cost projection.

Claim Administration	\$39.49
Consulting Fees	\$1.73
Eligibility Administration	\$2.58
District Admin	\$1.00
Retiree Billing	\$0.33
COBRA/HIPAA	<u>\$0.60</u>
Total	\$45.73

Three Year Costs

Ed Code Section 17566 requires an actuarial estimate of self-funded health plan costs every three years. Unfortunately, it is not feasible to confidently project health costs very far into the future. Plan changes or demographic changes can arise that can't be anticipated a year or two in advance. Even for a group with a stable plan and stable demographics, predicting health trends is subject to considerable uncertainty. To predict trend two years from now requires: an accurate economic forecast; a good prediction of how political forces will affect legislation and policy related to health care finance; an accurate prediction of breakthroughs in health care technology, drugs and treatment methods; a prediction of emerging public health issues; and an accurate prediction of the impact of market forces on health care prices. Needless to say, there can be considerable uncertainty projecting these factors three months much less three years!

We recommend that Pajaro Valley USD obtain annual cost estimates from a qualified benefit consultant (not necessarily with actuarial credentials). The requirement that a qualified actuary provide cost estimates every three years should assure that annual cost estimates don't get too far out of line, as long as interim cost estimates are prepared by a competent benefit professional.

The following three year projection is based on a projection of expected claims and expenses using trend. Projections are expressed as ranges. The high trend estimate has been increased by 2% in the first year and 4% in the second.

<u>Period</u>	<u>Low Estimate</u>	<u>High Estimate</u>	<u>Trend Range</u>
July 1, 2009 to June 30, 2010	\$939.01	\$1,036.67	6.0% to 12.0%
July 1, 2010 to June 30, 2011	\$995.35	\$1,181.80	6.0% to 14.0%
July 1, 2011 to June 30, 2012	\$1,055.07	\$1,370.89	6.0% to 16.0%

It should be emphasized that the "High Estimate" costs do NOT represent a worst case scenario. Actual costs could be much higher depending on factors mentioned at the beginning of this section. These projected costs should NOT be relied on for funding purposes.

It is also important to note that the high estimate costs include fluctuation margin. Pajaro Valley USD may not need to fund fluctuation margin if a suitable amount is already earmarked for this purpose.

Future Cost Estimates

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Any projection of health care costs will be only as good as the data used as the basis for the projections. To get the best possible estimates of future costs, the following types of data would be necessary.

- ◁ Claim lag reports produced no less frequently than quarterly.
- ◁ Monthly count of the administrator's "on hand" claims.
- ◁ A list, with amount, of any "pending" claims. (Pending claims have been received, partially processed and are awaiting additional information before being finalized. (For medical plans, a disproportionate number of pending claims are very large claims.)
- ◁ Quarterly snapshots of demographic data for enrolled employees and their dependents.
- ◁ An annual claim history tape to assist in pricing plan changes and for other analyses.

The cost and reserve estimates contained in this study do not reflect costs for retiree benefits beyond the projection period. To prudently fund its benefit plan, funds should be earmarked for any retiree health benefits. To do so, funding should include the annual accrued cost for district-paid retiree health benefits as well as an amount to amortize any unfunded past service liability.

Professional Qualifications

The estimates of required funding rates were prepared by Geoffrey Kischuk. Mr. Kischuk is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA) and a Fellow of the Conference of Consulting Actuaries (FCA). Mr. Kischuk has 25 years of experience estimating costs for group life, health and disability plans.

Mr. Kischuk's professional credentials qualify him to perform this evaluation according to California Education Code Section 17566.

Prepared by:

Geoffrey L. Kischuk, FSA, FCA, MAAA
Consultant
Total Compensation Systems, Inc.

APPENDIX A: MATERIALS RELIED ON IN ESTIMATING COSTS

- ◁ Wellpoint claim lag data thru June 30, 2009.
- ◁ Keenan & Associates renewal calculation.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No:

Date: December 9, 2009

Item: Approve with gratitude donation of \$1,047.00 from Corralitos Community Free Methodist Church for Together in the Park Program in Corralitos.

Overview: The Board acknowledges and recognizes the generosity of community members and businesses. Their commitment to education is evident through their contribution.

Recommendation: Approve with gratitude this donation.

Prepared By: Dorma Baker, Superintendent

Superintendent's Signature: _____

**Pajaro Valley Unified School District
Estimate of Self-Funding Rates
Dental Plan**

prepared by Total Compensation Systems, Inc.

Date: October 9, 2009

*Plan year:
July 1, 2009 to June 30, 2010*

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Pajaro Valley Unified School District Estimate of Self-Funding Rates Dental Plan Prepared By Total Compensation Systems, Inc.

Introduction

Total Compensation Systems, Inc. (TCS) was asked to estimate required funding rates for Pajaro Valley USD's self-funded dental plan for the period July 1, 2009 to June 30, 2010. This estimate of required funding rates is intended to assist Pajaro Valley USD in complying with the actuarial cost estimate requirements of California Education Code Section 17566.

Methodology

Below is a summary of the calculations used to estimate the required funding rate.

Paid Claims July 1, 2008 to June 30, 2009	\$2,341,538
Plus: Change in IBNP claims June 30, 2008 to June 30, 2009	-\$15,395
Plus: Demographic adjustment	\$0
Plus: Adjustment for plan changes	\$0
Plus: Miscellaneous adjustment July 1, 2008 to June 30, 2009	\$0
Equals: Estimated Incurred Claims July 1, 2008 to June 30, 2009	\$2,326,143
Divided by: Employee months of coverage July 1, 2008 to June 30, 2009	30,760
Equals: Estimated monthly incurred claims July 1, 2008 to June 30, 2009	\$75.62
Times: Trend adjustment 12.0 months at 4.0%	1.0400
Equals: Projected monthly incurred claims July 1, 2009 to June 30, 2010	\$78.65
Plus: Administrative Expenses July 1, 2009 to June 30, 2010	\$3.87
Plus: Stop-loss premiums July 1, 2009 to June 30, 2010	\$0.00
Plus: Claim fluctuation margin at 5.0%*	\$3.93
Equals: Projected per capita plan cost July 1, 2009 to June 30, 2010	\$86.45

* This margin is only necessary if Pajaro Valley USD does not have funds specifically earmarked to cover claim fluctuation.

Following is a more detailed discussion of the actuarial assumptions and methods. Materials relied on in estimating costs are listed in Appendix A.

Incurred But Not Paid (IBNP) claims

The increase in IBNP claims is calculated by subtracting an estimate of outstanding claims at June 30, 2008 from an estimate of claims still outstanding at June 30, 2009. The estimate of claims outstanding at June 30, 2009 is based on an actuarial method known as the Bornhuetter-Ferguson Method. The proportion of claims expected to be outstanding is based on completion factors derived from actual District claim lag data. Using this method, the IBNP claims are estimated as the sum, for all prior months, of: Expected

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Incurred Claims for the month x Proportion of Claims Expected to Be Still Outstanding

For the estimate of IBNP claims at June 30, 2008, claim lag data was used to the extent possible to determine actual claims paid during the experience period that were incurred prior to July 1, 2008. Where claim lag data was not available, the Bornhuetter-Ferguson Method was used to estimate claims paid during the experience period that were incurred before July 1, 2008. The Bornhuetter-Ferguson Method was also used to estimate claims paid *after* the end of the experience period that were incurred *before* the experience period.

Using the above methodology, we estimated IBNP claims as shown in the following table: This estimate of "Expected IBNP Claims" was used to project the monthly cost per employee. For accounting purposes, Pajaro Valley USD should include allowances for expenses, fluctuation margin, uncashed checks, etc.

While it is outside the scope of this report to determine the amount of uncashed checks, the following table recommends a reasonable reserve for IBNP expenses and IBNP fluctuation margin. We also have shown an estimate of the claim fluctuation margin if enrollment is the same during the upcoming plan year as it was during the experience period. This allows an estimate of the total dental plan required reserves. This figure should be viewed as a minimum. It would not be unreasonable to hold twice the amount shown below as IBNP fluctuation margin and/or claim fluctuation margin.

	June 30, 2008	June 30, 2009
Estimated IBNP Claims	\$220,307	\$204,912
Estimated Run-out Expenses	N/A	\$19,840
Estimated IBNP Fluctuation Margin	N/A	\$40,982
Estimated Claim Fluctuation Margin*	N/A	\$120,959
Total Required Reserves	N/A	\$386,694

Demographic Adjustment

The claim experience on which cost projections are based reflects the employees and dependents covered during the period July 1, 2008 to June 30, 2009. The demographics of the group that will be covered from July 1, 2009 to June 30, 2010 may be different from the demographics of the group covered in the past. The demographic adjustment reflects any information we were given about material differences between the demographics of the group to be covered in the future and the group that was covered in the past.

We had no information to indicate that any demographic adjustment is necessary.

Adjustment for Plan Changes

The claim experience used for cost projections reflects the dental plan in effect at that time - including the effect of any plan changes that occurred during that period. If the plan design for the projection period is different from the plan reflected in the claim experience, it is important to adjust the prior claim experience.

We had no information of any plan change that would necessitate adjusting prior claim experience.

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Trend

Trend is one of the most important assumptions and is also one of the most difficult to accurately estimate. Trend includes the effect of external factors that influence health plan costs. These external factors include inflation, changes in claim frequency (i.e. utilization), cost shifting among health care payors and new technology.

We determine trend factors by looking at past trend and predicting how future trend may change. Our analysis of future trend considers each of the above external factors individually.

At any time, a major component of trend is inflation. Inflation is historically measured by the Consumer Price Index (CPI). However, the CPI measures increases in the price of housing, transportation, food and other goods and services not covered by a typical group health plan.

The federal Department of Labor also publishes a Medical CPI. The Medical CPI reflects the increase in price for health care goods and services. The Medical CPI includes medical goods and services, dental and vision care. Like the overall CPI, the Medical CPI is also *not* a good indicator of the effect of inflation on dental care. In order to use the Medical CPI to estimate the impact of inflation, it is necessary to adjust the Medical CPI. The Medical CPI includes a component specifically for dental care. This component can be used directly to estimate the effect of inflation on trend. Adjusting the Medical CPI in this manner results in recent inflation increases based on CPI figures of 4.5% for dental.

These inflation increases would apply directly to group dental plans that have no deductibles. For a plan that has a deductible, the burden of inflation is disproportionately borne by the plan sponsor. The process that results in plan sponsors assuming a disproportionate share of inflation's impact is commonly known as "deductible leveraging." The effect of deductible leveraging depends on the plan design, the level of claims for a plan, and the inflation rate.

Recent trend surveys show that indemnity dental plans have experienced trend of 5.0% to 7.0% on average. This means that the components of trend other than inflation have been contributing from 0.5% to 2.5% of dental plan costs in addition to inflation and deductible leveraging.

In applying trend factors, it is important to note that trend involves a retrospective element as well as a prospective element. The claim experience from July 1, 2008 to June 30, 2009 must be adjusted for trend to a current date. This adjustment reflects past trend which can be estimated to a large extent based on historical CPI data. It is also necessary to project claims from a current date to the July 1, 2009 to June 30, 2010 plan year. In projecting claims, trend can only be guessed by extrapolating from past data.

Taking into consideration the different components of trend and the combined retrospective and prospective element of cost projections, following is the range we believe to be reasonable for estimating future dental plan costs.

	Type of Plan	
	<u>Indemnity</u>	<u>Pre-Paid</u>
Dental Trend Range:	4.0% to 6.0%	3.0% to 5.0%

It should be noted that "scheduled" plans may have trends much lower than the above trend ranges if the scheduled benefits are significantly below prevailing charges. It is also important to note that pre-paid plan

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trends are sometimes lower because these plans typically do not have much , if any, deductible leveraging. Other reasons for potentially lower pre-paid plan trends are: better claim management; reduced cost shifting through contracting; and lower inflation applied to the larger proportion of *pre-paid* premiums attributable to administrative expense.

In addition to plan-related trend effects, there are also market-related effects. For example, administrators and providers may adjust prices upward to improve profit margins. Prices may not increase as quickly if, for example, providers are competing for market share and are willing to contract for lower fees under managed care plans. Market-related factors can have a dramatic effect on trend rates at times.

In projecting future dental plan costs, it is usual to project claims for a period that is longer than one year. In calculating trend factors for periods other than one year, we have “compounded” the effect of the trend factor. To compound the trend rate, we take the sum of one plus the annual trend rate and raise the sum to the $m/12$ power. In calculating this exponent, m is equal to the number of months claims are being projected.

Margin

Projected incurred claims are intended to represent the “expected” level of claims. Dental claims are subject to statistical principles and, even if all actuarial assumptions are accurate, there is about a 50% chance that claims will exceed the projected claim level and a 50% chance claims will be less than the projected level.

We believe that it is prudent to prepare for the likelihood that statistical fluctuation or inevitable errors in actuarial assumptions will cause claims to exceed the expected level. We have included a 5% “margin” in our cost estimates. Should Pajaro Valley USD already have funds earmarked for margin, it would not be necessary to include margin in funds budgeted for benefits. The margin indicated in this report should be viewed as a minimum level.

Administrative Expenses

Administrative expenses were estimated based on information available at the time the cost estimates were prepared. It is possible that fees charged to Pajaro Valley USD for the July 1, 2009 to June 30, 2010 plan year have been finalized or adjusted since the cost estimates in this report were prepared. Under normal circumstances we would not expect any material error from using *preliminary* administration fees.

Administrative expenses have been estimated on an “incurred” basis (as have claim costs). Using an incurred basis provides cost estimates that are consistent with current or future Governmental Accounting Standards Board (GASB) accounting standards related to self-funded plans. The following table shows the components of administrative expenses included in our cost projection.

Claim Administration	\$3.87
Consulting Fees	\$0.00
Eligibility Administration	<u>\$0.00</u>
Total	\$3.87

Three Year Costs

Ed Code Section 17566 requires an actuarial estimate of self-funded health plan costs every three years. Unfortunately, it is not feasible to confidently project health costs very far into the future. Plan changes or

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demographic changes can arise that can't be anticipated a year or two in advance. Even for a group with a stable plan and stable demographics, predicting health trends is subject to considerable uncertainty. To predict trend two years from now requires: an accurate economic forecast; a good prediction of how political forces will affect legislation and policy related to health care finance; an accurate prediction of breakthroughs in health care technology, drugs and treatment methods; a prediction of emerging public health issues; and an accurate prediction of the impact of market forces on health care prices. Needless to say, there can be considerable uncertainty projecting these factors three months much less three years!

We recommend that Pajaro Valley USD obtain annual cost estimates from a qualified benefit consultant (not necessarily with actuarial credentials). The requirement that a qualified actuary provide cost estimates every three years should assure that annual cost estimates don't get too far out of line, as long as interim cost estimates are prepared by a competent benefit professional.

The following three year projection is based on a projection of expected claims and expenses using trend. Projections are expressed as ranges. The high trend estimate has been increased by 2% in the first year and 4% in the second.

<u>Period</u>	<u>Low Estimate</u>	<u>High Estimate</u>	<u>Trend Range</u>
July 1, 2009 to June 30, 2010	\$82.52	\$88.11	4.0% to 6.0%
July 1, 2010 to June 30, 2011	\$85.82	\$95.16	4.0% to 8.0%
July 1, 2011 to June 30, 2012	\$89.25	\$104.68	4.0% to 10.0%

It should be emphasized that the "High Estimate" costs do NOT represent a worst case scenario. Actual costs could be much higher depending on factors mentioned at the beginning of this section. These projected costs should NOT be relied on for funding purposes.

It is also important to note that the high estimate costs include fluctuation margin. Pajaro Valley USD may not need to fund fluctuation margin if a suitable amount is already earmarked for this purpose.

Future Cost Estimates

Any projection of health care costs will be only as good as the data used as the basis for the projections. To get the best possible estimates of future costs, the following types of data would be necessary.

- < Claim lag reports produced no less frequently than quarterly.
- < Monthly count of the administrator's "on hand" claims.
- < A list, with amount, of any "pending" claims. (Pending claims have been received, partially processed and are awaiting additional information before being finalized.
- < Quarterly snapshots of demographic data for enrolled employees and their dependents.
- < An annual claim history tape to assist in pricing plan changes and for other analyses.

The cost and reserve estimates contained in this study do not reflect costs for retiree benefits beyond the

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projection period. To prudently fund its benefit plan, funds should be earmarked for any retiree health benefits. To do so, funding should include the annual accrued cost for district-paid retiree health benefits as well as an amount to amortize any unfunded past service liability.

Professional Qualifications

The estimates of required funding rates were prepared by Geoffrey Kischuk. Mr. Kischuk is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA) and a Fellow of the Conference of Consulting Actuaries (FCA). Mr. Kischuk has 25 years of experience estimating costs for group life, health and disability plans.

Mr. Kischuk's professional credentials qualify him to perform this evaluation according to California Education Code Section 17566.

Prepared by:

Geoffrey L. Kischuk, FSA, FCA, MAAA
Consultant
Total Compensation Systems, Inc.

Total Compensation Systems, Inc.

APPENDIX A: MATERIALS RELIED ON IN ESTIMATING COSTS

- < Coastal claim lag data thru June 30, 2009.
- < Keenan & Associates renewal calculation.

**Pajaro Valley Unified School District
Estimate of Self-Funding Rates
Vision Plan**

prepared by Total Compensation Systems, Inc.

Date: October 9, 2009

*Plan year:
July 1, 2009 to June 30, 2010*

**Pajaro Valley Unified School District
Estimate of Self-Funding Rates
Vision Plan
Prepared By
Total Compensation Systems, Inc.**

Introduction

Total Compensation Systems, Inc. (TCS) was asked to estimate required funding rates for Pajaro Valley USD's self-funded vision plan for the period July 1, 2009 to June 30, 2010. This estimate of required funding rates is intended to assist Pajaro Valley USD in complying with the actuarial cost estimate requirements of California Education Code Section 17566.

Methodology

Below is a summary of the calculations used to estimate the required funding rate.

Paid Claims July 1, 2008 to June 30, 2009	\$471,971
Plus: Change in IBNP claims June 30, 2008 to June 30, 2009	\$5,104
Plus: Demographic adjustment	\$0
Plus: Adjustment for plan changes	\$0
Plus: Miscellaneous adjustment July 1, 2008 to June 30, 2009	\$0
Equals: Estimated Incurred Claims July 1, 2008 to June 30, 2009	\$477,075
Divided by: Employee months of coverage July 1, 2008 to June 30, 2009	18,091
Equals: Estimated monthly incurred claims July 1, 2008 to June 30, 2009	\$26.37
Times: Trend adjustment 12.0 months at 3.0%	1.0300
Equals: Projected monthly incurred claims July 1, 2009 to June 30, 2010	\$27.16
Plus: Administrative Expenses July 1, 2009 to June 30, 2010	\$2.00
Plus: Stop-loss premiums July 1, 2009 to June 30, 2010	\$0.00
Plus: Claim fluctuation margin at 5.0%*	\$1.36
Equals: Projected per capita plan cost July 1, 2009 to June 30, 2010	\$30.52

* This margin is only necessary if Pajaro Valley USD does not have funds specifically earmarked to cover claim fluctuation.

Following is a more detailed discussion of the actuarial assumptions and methods. Materials relied on in estimating costs are listed in Appendix A.

Incurred But Not Paid (IBNP) claims

The increase in IBNP claims is calculated by subtracting an estimate of outstanding claims at June 30, 2008 from an estimate of claims still outstanding at June 30, 2009. The estimate of claims outstanding at June 30, 2009 is based on an actuarial method known as the Bornhuetter-Ferguson Method. The proportion of claims expected to be outstanding is based on completion factors derived from actual District claim lag

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data. Using this method, the IBNP claims are estimated as the sum, for all prior months, of: Expected Incurred Claims for the month x Proportion of Claims Expected to Be Still Outstanding

For the estimate of IBNP claims at June 30, 2008, claim lag data was used to the extent possible to determine actual claims paid during the experience period that were incurred prior to July 1, 2008. Where claim lag data was not available, the Bornhuetter-Ferguson Method was used to estimate claims paid during the experience period that were incurred before July 1, 2008. The Bornhuetter-Ferguson Method was also used to estimate claims paid *after* the end of the experience period that were incurred before the experience period.

Using the above methodology, we estimated IBNP claims as shown in the following table: This estimate of "Expected IBNP Claims" was used to project the monthly cost per employee. For accounting purposes, Pajaro Valley USD should include allowances for expenses, fluctuation margin, uncashed checks, etc.

While it is outside the scope of this report to determine the amount of uncashed checks, the following table recommends a reasonable reserve for IBNP expenses and IBNP fluctuation margin. We also have shown an estimate of the claim fluctuation margin if enrollment is the same during the upcoming plan year as it was during the experience period. This allows an estimate of the total vision plan required reserves. This figure should be viewed as a minimum. It would not be unreasonable to hold twice the amount shown below as IBNP fluctuation margin and/or claim fluctuation margin.

	June 30, 2008	June 30, 2009
Estimated IBNP Claims	\$20,339	\$25,443
Estimated Run-out Expenses	N/A	\$6,030
Estimated IBNP Fluctuation Margin	N/A	\$5,089
Estimated Claim Fluctuation Margin*	N/A	\$24,569
Total Required Reserves	N/A	\$61,131

Demographic Adjustment

The claim experience on which cost projections are based reflects the employees and dependents covered during the period July 1, 2008 to June 30, 2009. The demographics of the group that will be covered from July 1, 2009 to June 30, 2010 may be different from the demographics of the group covered in the past. The demographic adjustment reflects any information we were given about material differences between the demographics of the group to be covered in the future and the group that was covered in the past.

We had no information to indicate that any demographic adjustment is necessary.

Adjustment for Plan Changes

The claim experience used for cost projections reflects the vision plan in effect at that time - including the effect of any plan changes that occurred during that period. If the plan design for the projection period is different from the plan reflected in the claim experience, it is important to adjust the prior claim experience.

We had no information of any plan change that would necessitate adjusting prior claim experience.

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Trend

Trend is one of the most important assumptions and is also one of the most difficult to accurately estimate. Trend includes the effect of external factors that influence health plan costs. These external factors include inflation, changes in claim frequency (i.e. utilization), cost shifting among health care payors and new technology.

We determine trend factors by looking at past trend and predicting how future trend may change. Our analysis of future trend considers each of the above external factors individually.

At any time, a major component of trend is inflation. Inflation is historically measured by the Consumer Price Index (CPI). However, the CPI measures increases in the price of housing, transportation, food and other goods and services not covered by a typical group health plan.

The federal Department of Labor also publishes a Medical CPI. The Medical CPI reflects the increase in price for health care goods and services. The Medical CPI includes medical goods and services, dental and vision care. Like the overall CPI, the Medical CPI is also *not* a good indicator of the effect of inflation on vision care. In order to use the Medical CPI to estimate the impact of inflation, it is necessary to adjust the Medical CPI. The Medical CPI includes a component specifically for vision care. This component can be used directly to estimate the effect of inflation on trend. Adjusting the Medical CPI in this manner results in recent inflation increases based on CPI figures of 1.0% for vision.

These inflation increases would apply directly to group vision plans that have no deductibles. For a plan that has a deductible, the burden of inflation is disproportionately borne by the plan sponsor. The process that results in plan sponsors assuming a disproportionate share of inflation's impact is commonly known as "deductible leveraging." The effect of deductible leveraging depends on the plan design, the level of claims for a plan, and the inflation rate.

Recent trend surveys show that indemnity vision plans have experienced trend of 2.0% to 4.0% on average. This means that the components of trend other than inflation have been contributing from 1.0% to 3.0% of vision plan costs in addition to inflation and deductible leveraging.

In applying trend factors, it is important to note that trend involves a retrospective element as well as a prospective element. The claim experience from July 1, 2008 to June 30, 2009 must be adjusted for trend to a current date. This adjustment reflects past trend which can be estimated to a large extent based on historical CPI data. It is also necessary to project claims from a current date to the July 1, 2009 to June 30, 2010 plan year. In projecting claims, trend can only be guessed by extrapolating from past data.

Taking into consideration the different components of trend and the combined retrospective and prospective element of cost projections, following is the range we believe to be reasonable for estimating future vision plan costs.

	Type of Plan	
	<u>Indemnity</u>	<u>Pre-Paid</u>
Vision Trend Range:	2.0% to 4.0%	1.0% to 3.0%

It should be noted that "scheduled" plans may have trends much lower than the above trend ranges if the scheduled benefits are significantly below prevailing charges. It is also important to note that pre-paid plan

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trends are sometimes lower because these plans typically do not have much , if any, deductible leveraging. Other reasons for potentially lower pre-paid plan trends are: better claim management; reduced cost shifting through contracting; and lower inflation applied to the larger proportion of *pre-paid* premiums attributable to administrative expense.

In addition to plan-related trend effects, there are also market-related effects. For example, administrators and providers may adjust prices upward to improve profit margins. Prices may not increase as quickly if, for example, providers are competing for market share and are willing to contract for lower fees under managed care plans. Market-related factors can have a dramatic effect on trend rates at times.

In projecting future vision plan costs, it is usual to project claims for a period that is longer than one year. In calculating trend factors for periods other than one year, we have “compounded” the effect of the trend factor. To compound the trend rate, we take the sum of one plus the annual trend rate and raise the sum to the $m/12$ power. In calculating this exponent, m is equal to the number of months claims are being projected.

Margin

Projected incurred claims are intended to represent the “expected” level of claims. Vision claims are subject to statistical principles and, even if all actuarial assumptions are accurate, there is about a 50% chance that claims will exceed the projected claim level and a 50% chance claims will be less than the projected level.

We believe that it is prudent to prepare for the likelihood that statistical fluctuation or inevitable errors in actuarial assumptions will cause claims to exceed the expected level. We have included a 5% “margin” in our cost estimates. Should Pajaro Valley USD already have funds earmarked for margin, it would not be necessary to include margin in funds budgeted for benefits. The margin indicated in this report should be viewed as a minimum level.

Administrative Expenses

Administrative expenses were estimated based on information available at the time the cost estimates were prepared. It is possible that fees charged to Pajaro Valley USD for the July 1, 2009 to June 30, 2010 plan year have been finalized or adjusted since the cost estimates in this report were prepared. Under normal circumstances we would not expect any material error from using *preliminary* administration fees.

Administrative expenses have been estimated on an “incurred” basis (as have claim costs). Using an incurred basis provides cost estimates that are consistent with current or future Governmental Accounting Standards Board (GASB) accounting standards related to self-funded plans. The following table shows the components of administrative expenses included in our cost projection.

Claim Administration	\$2.00
Consulting Fees	\$0.00
Eligibility Administration	<u>\$0.00</u>
Total	\$2.00

Three Year Costs

Ed Code Section 17566 requires an actuarial estimate of self-funded health plan costs every three years. Unfortunately, it is not feasible to confidently project health costs very far into the future. Plan changes or

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demographic changes can arise that can't be anticipated a year or two in advance. Even for a group with a stable plan and stable demographics, predicting health trends is subject to considerable uncertainty. To predict trend two years from now requires: an accurate economic forecast; a good prediction of how political forces will affect legislation and policy related to health care finance; an accurate prediction of breakthroughs in health care technology, drugs and treatment methods; a prediction of emerging public health issues; and an accurate prediction of the impact of market forces on health care prices. Needless to say, there can be considerable uncertainty projecting these factors three months much less three years!

We recommend that Pajaro Valley USD obtain annual cost estimates from a qualified benefit consultant (not necessarily with actuarial credentials). The requirement that a qualified actuary provide cost estimates every three years should assure that annual cost estimates don't get too far out of line, as long as interim cost estimates are prepared by a competent benefit professional.

The following three year projection is based on a projection of expected claims and expenses using trend. Projections are expressed as ranges. The high trend estimate has been increased by 2% in the first year and 4% in the second.

<u>Period</u>	<u>Low Estimate</u>	<u>High Estimate</u>	<u>Trend Range</u>
July 1, 2009 to June 30, 2010	\$28.88	\$30.82	2.0% to 4.0%
July 1, 2010 to June 30, 2011	\$29.46	\$32.67	2.0% to 6.0%
July 1, 2011 to June 30, 2012	\$30.05	\$35.28	2.0% to 8.0%

It should be emphasized that the "High Estimate" costs do NOT represent a worst case scenario. Actual costs could be much higher depending on factors mentioned at the beginning of this section. These projected costs should NOT be relied on for funding purposes.

It is also important to note that the high estimate costs include fluctuation margin. Pajaro Valley USD may not need to fund fluctuation margin if a suitable amount is already earmarked for this purpose.

Future Cost Estimates

Any projection of health care costs will be only as good as the data used as the basis for the projections. To get the best possible estimates of future costs, the following types of data would be necessary.

- ◁ Claim lag reports produced no less frequently than quarterly.
- ◁ Monthly count of the administrator's "on hand" claims.
- ◁ A list, with amount, of any "pending" claims. (Pending claims have been received, partially processed and are awaiting additional information before being finalized.
- ◁ Quarterly snapshots of demographic data for enrolled employees and their dependents.
- ◁ An annual claim history tape to assist in pricing plan changes and for other analyses.

The cost and reserve estimates contained in this study do not reflect costs for retiree benefits beyond the

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projection period. To prudently fund its benefit plan, funds should be earmarked for any retiree health benefits. To do so, funding should include the annual accrued cost for district-paid retiree health benefits as well as an amount to amortize any unfunded past service liability.

Professional Qualifications

The estimates of required funding rates were prepared by Geoffrey Kischuk. Mr. Kischuk is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA) and a Fellow of the Conference of Consulting Actuaries (FCA). Mr. Kischuk has 25 years of experience estimating costs for group life, health and disability plans.

Mr. Kischuk's professional credentials qualify him to perform this evaluation according to California Education Code Section 17566.

Prepared by:

Geoffrey L. Kischuk, FSA, FCA, MAAA
Consultant
Total Compensation Systems, Inc.

Total Compensation Systems, Inc.

APPENDIX A: MATERIALS RELIED ON IN ESTIMATING COSTS

- < Vision Service Plan claim lag data thru June 30, 2009.
- < Keenan & Associates renewal calculation.



Board Agenda Backup

Item No: 14.3

Date: December 9, 2009

Item: Retiree Health Liabilities

Overview: The Governmental Accounting Standards Board issued Accounting Standards 43 and 45 in 2004 dealing with retiree health benefits. These standards require us to disclose the existence and cost of retiree health benefits.

The District hired Total Compensation Systems Inc. to perform the actuarial study to determine our current retiree health benefit liability. The attached report is the result of that study. The major findings include the following:

- The cost of accrued benefits for current employees in the year beginning July 1, 2009 is estimated to be \$3,226,292 using the district's budget.
- Had the District begun pre-funding the retiree health benefits when each current employee and retiree was hired, the amount that would have been accumulated would be \$65,626,213. This amount is known as the "actuarial accrued liability" (AAL).
- The District has deposited \$1.9 million to a fund estimated to be approximately \$1.65 million dollars as the time of the actuarial report. (as of October 2009 \$1.8 million) Subtracting this amount from the necessary total of \$65,626,213 results in an unfunded liability of \$63,773,213.
- The current year cost to amortize the unfunded liability over 30 years would be \$3,051,302. This in addition to the current "pay as you go" accrual cost would require the District to fund \$6.27 million this year with that accrual portion increasing each year based on covered payroll.

Receive the Actuarial Study of Retiree Health Liabilities and review its implications on future district funding.

Recommendation:

Budget Considerations:

Funding Source:

Budgeted: Yes: ☐ No: x

Amount:

**Associate
Superintendent:**

Mary Hart

Superintendent's Signature:

Mary Hart for Donna Baker

**Pajaro Valley Unified School District
Actuarial Study of
Retiree Health Liabilities
As of March 1, 2009**

*Prepared by:
Total Compensation Systems, Inc.*

Date: September 8, 2009

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Pajaro Valley Unified School District
Actuarial Study of Retiree Health Liabilities

PART I: EXECUTIVE SUMMARY

A. Introduction

Pajaro Valley Unified School District engaged Total Compensation Systems, Inc. (TCS) to analyze liabilities associated with its current retiree health program as of March 1, 2009 (the valuation date). The numbers in this report were calculated assuming they would first be used to determine accounting entries for the 2009-10 fiscal year.

This actuarial study is intended to serve the following purposes:

- » To provide information to enable Pajaro Valley USD to manage the costs and liabilities associated with its retiree health benefits.
- » To provide information to enable Pajaro Valley USD to communicate the financial implications of retiree health benefits to internal financial staff, the Board, employee groups and other affected parties.
- » To provide information needed to comply with Governmental Accounting Standards Board Accounting Standards 43 and 45 related to "other postemployment benefits" (OPEB's).

Because this report was prepared in compliance with GASB 43 and 45, as appropriate, Pajaro Valley USD should not use this report for any other purpose without discussion with TCS. This means that any discussions with employee groups, governing Boards, etc. should be restricted to the implications of GASB 43 and 45 compliance.

This actuarial report includes several estimates for Pajaro Valley USD's retiree health program. In addition to the tables included in this report, we also performed cash flow adequacy tests as required under Actuarial Standard of Practice 6 (ASOP 6). Our cash flow adequacy testing covers a twenty-year period. We would be happy to make this cash flow adequacy test available to Pajaro Valley USD in spreadsheet format upon request.

We calculated the following estimates separately for active employees and retirees. As requested, we also separated results by the following employee classifications: Certificated, Classified and Management. We estimated the following:

- the total liability created. (The actuarial present value of total projected benefits or APVTPB)
- the ten year "pay-as-you-go" cost to provide these benefits.
- the "actuarial accrued liability (AAL)." (The AAL is the portion of the APVTPB attributable to employees' service prior to the valuation date.)
- the amount necessary to amortize the UAAL over a period of 30 years.
- the annual contribution required to fund retiree benefits over the working lifetime of eligible employees (the "normal cost").

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- The Annual Required Contribution (ARC) which is the basis of calculating the annual OPEB cost and net OPEB obligation under GASB 43 and 45.

We summarized the data used to perform this study in Appendix A. No effort was made to verify this information beyond brief tests for reasonableness and consistency.

All cost and liability figures contained in this study are estimates of future results. Future results can vary dramatically and the accuracy of estimates contained in this report depends on the actuarial assumptions used. Normal costs and liabilities could easily vary by 10 - 20% or more from estimates contained in this report. The best way to respond to this uncertainty of future results is to have an actuarial study performed regularly - no less frequently than every two or three years as provided by GASB 43 and 45.

B. General Findings

We estimate the "pay-as-you-go" cost of providing retiree health benefits in the year beginning March 1, 2009 to be \$4,889,630 (see Section IV.A.). The "pay-as-you-go" cost is the cost of benefits for current retirees.

For current employees, the value of benefits "accrued" in the year beginning March 1, 2009 (the normal cost) is \$2,519,494. This normal cost would increase each year based on covered payroll. Had Pajaro Valley USD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. We estimate the amount that would have accumulated to be \$65,626,213. This amount is called the "actuarial accrued liability" (AAL). Of this amount, \$51,938,570 is the remaining unamortized balance of the initial unfunded actuarial accrued liability (UAAL). This leaves an additional AAL of \$13, 687,643.

Pajaro Valley USD has set aside funds for retiree health liabilities in a GASB 45 qualifying trust. We calculated the actuarial value of plan assets (AVA) using a 15 year smoothing formula and 20% corridor around market value. The resulting AVA is \$1,650,064. This leaves an unfunded **additional** actuarial accrued liability (UAAL) of \$12,037,579. We calculated the annual cost to amortize this unfunded additional actuarial accrued liability using a 7% discount rate. We used a 30 year open amortization period. The current year cost to amortize the unfunded "additional actuarial accrued liability" is \$686,321. This amortization payment would increase each year based on covered payroll.

Combining the normal cost, the initial UAAL amortization and additional UAAL amortization costs in the first year produces a total first year annual required contribution (ARC) of \$6,277,594. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45. The ARC is used in lieu of (rather than in addition to) the "pay-as-you-go" cost.

We based all of the above estimates on employees as of March, 2009. Over time, liabilities and cash flow will vary based on the number and demographic characteristics of employees and retirees. It will be important to periodically revalue costs and liabilities.

C. Description of Retiree Benefits

Following is a description of the current retiree benefit plan:

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	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Benefit types provided	Medical, dental and vision	Medical, dental and vision	Medical, dental and vision
Duration of Benefits	To age 65	To age 65	To age 65
Required Service	10 years	10 years	10 years
Minimum Age	55	55	55
Dependent Coverage	Yes	Yes	Yes
District Contribution %	100% after retiree contributions of \$56 for single coverage and \$90 for two party coverage	100%	100% after retiree contributions of \$56 for single coverage and \$90 for two party coverage
District Cap	None	None	None

D. Recommendations

It is outside the scope of this report to make specific recommendations of actions Pajaro Valley USD should take to manage the substantial liability created by the current retiree health program. Total Compensation Systems, Inc. can assist in identifying and evaluating options once this report has been studied. The following recommendations are intended only to allow the District to get more information from this and future studies. Because we have not conducted a comprehensive administrative audit of Pajaro Valley USD's practices, it is possible that Pajaro Valley USD is already complying with some or all of our recommendations.

- We recommend that Pajaro Valley USD inventory all benefits and services provided to retirees – whether contractually or not and whether retiree-paid or not. For each, Pajaro Valley USD should determine whether the benefit is material and subject to GASB 43 and/or 45.
- We recommend that Pajaro Valley USD conduct a study whenever events or contemplated actions significantly affect present or future liabilities, but no less frequently than every two or three years, as will be required under GASB 43/45.
- We recommend that the District communicate the magnitude of these costs to employees and include employees in discussions of options to control the costs.
- Because of the significant liabilities created by the current retiree health program, the District should consider earmarking funds to pay future benefits. It should be noted that the upcoming GASB accounting standard will require assets sufficient to offset retiree health liabilities. Accrual basis costs under GASB 43/45 will be lower and more stable to the extent liabilities are funded under an irrevocable trust that qualifies under GASB 43/45 as a “plan.”
- Under GASB 45, it is important to isolate the cost of retiree health benefits. We strongly urge Pajaro Valley USD to have all premiums, claims and expenses for retirees separated from active employee premiums, claims, expenses, etc. To the extent any retiree benefits are made available to retirees over the age of 65 – *even on a retiree-pay-all basis* – all premiums, claims and expenses for post-65 retiree coverage should be segregated from those for pre-65 coverage. Furthermore, Pajaro Valley USD should arrange for the rates or prices of all retiree benefits to be set on what is expected to be a self-sustaining basis.

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- Pajaro Valley USD should establish a way of designating employees as eligible or ineligible for future OPEB benefits. Ineligible employees can include those in ineligible job classes; those hired after a designated date restricting eligibility; those who, due to their age at hire cannot qualify for District-paid OPEB benefits; employees who exceed the termination age for OPEB benefits, etc.
- Several assumptions were made in estimating costs and liabilities under Pajaro Valley USD's retiree health program. Further studies may be desired to validate any assumptions where there is any doubt that the assumption is appropriate. (See Appendices B and C for a list of assumptions and concerns.) For example, Pajaro Valley USD should maintain a retiree database that includes – in addition to date of birth, gender and employee classification – retirement date and (if applicable) dependent date of birth, relationship and gender. It will also be helpful for Pajaro Valley USD to maintain employment termination information – namely, the number of OPEB-eligible employees in each employee class that terminate employment each year for reasons other than death, disability or retirement.
- Segregating plan assets will allow taking advantage of California Government Code Sections 53620 through 53622 to achieve greater investment income on plan assets. This study assumes an investment return net of all investment and plan expenses of 7%. We recommend Pajaro Valley USD take actions to achieve a long term rate of return that reflects the long term nature of the liabilities.

Respectfully submitted,

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PART II: BACKGROUND

A. Summary

Accounting principles have long held that the cost of retiree benefits should be “accrued” over employees' working lifetime. For this reason, the Governmental Accounting Standards Board (GASB) issued in 2004 Accounting Standards 43 and 45 for retiree health benefits.

B. Actuarial Accrual

To actuarially accrue retiree health benefits requires determining the amount to expense each year so that the liability accumulated at retirement is, on average, sufficient (with interest) to cover all retiree health expenditures without the need for additional expenses. There are many different ways to determine the annual accrual amount. The calculation method used is called an “actuarial cost method.”

Conceptually, there are two components of actuarial cost - a “normal cost” and amortization of something called the “unfunded actuarial accrued liability.” Both accounting standards and actuarial standards usually address these two components separately (though alternative terminology is sometimes used).

The normal cost can be thought of as the value of the benefit earned each year if benefits are accrued during the working lifetime of employees. This report will not discuss differences between actuarial cost methods or their application. Instead, following is a description of a commonly used, generally accepted actuarial cost method that will be permitted under GASB 43 and 45. This actuarial cost method is called the “entry age normal” method.

Under the entry age normal cost method, an average age at hire and average retirement age are determined for eligible employees. Then, the actuary determines what amount needs to be expensed each year from hire until retirement to fully accrue the expected cost of retiree health benefits. This amount is the normal cost. Under GASB 43 and 45, the normal cost can be expressed either as a level dollar amount or as a level percentage of payroll.

The normal cost is determined using several key assumptions:

- The current ***cost of retiree health benefits*** (often varying by age, Medicare status and/or dependent coverage). The higher the current cost of retiree benefits, the higher the normal cost.
- The ***“trend” rate*** at which retiree health benefits are expected to increase over time. A higher trend rate increases the normal cost. A “cap” on District contributions can reduce trend to zero once the cap is reached thereby dramatically reducing normal costs.
- ***Mortality rates*** that vary by age and sex. (Unisex mortality rates are not usually used because an individual’s OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, contributions attributable to deceased employees are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination. Although higher mortality rates reduce normal costs, the mortality assumption is not likely to vary from employer to employer.
- ***Employment termination rates*** have the same effect as mortality inasmuch as higher termination rates reduce normal costs. Employment termination can vary considerably between school districts.

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- **Vesting rates** reflect years of service required to earn full or partial retiree benefits. While longer vesting periods reduce costs, cost reductions are not usually substantial unless full vesting requires more than 20 years of service.
- **Retirement rates** determine what proportion of employees retire at each age (assuming employees reach the requisite length of service). Retirement rates often vary by employee classification and implicitly reflect the minimum retirement age required for eligibility. Higher retirement rates increase normal costs but, except for differences in minimum retirement age, retirement rates tend to be consistent between school districts for each employee type.
- **Participation rates** indicate what proportion of retirees are expected to elect retiree health benefits if a significant retiree contribution is required. Higher participation rates increase costs.
- The **discount rate** estimates investment earnings for assets earmarked to cover retiree health benefit liabilities. The discount rate depends on the nature of underlying assets. For example, earmarked funds earning money market rates in the county treasury are likely to earn far less than a diversified portfolio including stocks, bonds, etc. A higher discount rate can dramatically lower normal costs. GASB 43 and 45 require the interest assumption to reflect likely *long term* investment return.

The assumptions listed above are not exhaustive, but are the most common assumptions used in actuarial cost calculations. The actuary selects the assumptions which - taken together - will yield reasonable results. It's not necessary (or even possible) to predict individual assumptions with complete accuracy.

If all actuarial assumptions were exactly met and an employer had expensed the normal cost every year for all past and current employees and retirees, the funds would have accumulated to a sizeable amount (after adding interest and subtracting retiree benefit costs from the accumulated funds). The fund that would have accumulated is called the actuarial accrued liability or AAL. The excess of the AAL over funds earmarked for retiree health benefits is called the *unfunded* actuarial accrued liability (or UAAL). Under GASB 43 and 45, in order for assets to count toward offsetting the AAL, the assets have to be held in an irrevocable trust that is safe from creditors and can only be used to provide OPEB benefits to eligible participants.

The actuarial accrued liability (AAL) can arise in several ways. First, at the inception of actuarial funding, there is usually a substantial UAAL. Under GASB 43 and 45, some portion of this amount can be established as the "transition obligation" subject to certain constraints. UAAL can also increase as the result of operation of a retiree health plan - e.g., as a result of plan changes or changes in actuarial assumptions. Finally, AAL can arise from actuarial gains and losses. Actuarial gains and losses result from differences between actuarial assumptions and actual plan experience.

Under GASB 43 and 45, employers have several options on how the UAAL can be amortized as follows:

- The employer can select an amortization period of 1 to 30 years. (For certain situations that result in a reduction of the AAL, the amortization period must be at least 10 years.)
- The employer may apply the same amortization period to the total combined UAAL or can apply different periods to different components of the UAAL.
- The employer may elect a "closed" or "open" amortization period.

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- The employer may choose to amortize on a level dollar or level percentage of payroll method.

UAAL amortization payments can be higher than the normal cost. The magnitude of the UAAL depends not only on all the assumptions discussed earlier, but also on the average age of employees. The higher employees' average age, the greater the AAL.

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PART III: LIABILITIES AND COSTS FOR RETIREE BENEFITS

A. Introduction.

We calculated the actuarial present value of projected benefits (APVPB) separately for each employee. We determined eligibility for retiree benefits based on information supplied by Pajaro Valley USD. We then selected assumptions for the factors discussed in the above Section that, based on plan experience and our training and experience, represent our best prediction of future plan experience. For each employee, we applied the appropriate factors based on the employee's age, sex and length of service.

We summarized actuarial assumptions used for this study in Appendix C.

B. Medicare

The extent of Medicare coverage can affect projections of retiree health costs. Because District-paid benefits end at or before age 65, Medicare integration methods have a minimal impact on retiree health costs and liabilities.

C. Liability for Retiree Benefits.

For each employee, we projected future premium costs using an assumed trend rate (see Appendix C). A constant trend rate was used for all years. This rate may understate trend in some years but might overstate it in others. As long as trend averages the assumed rate over a long period, it is not critical the rate be correct in any one year.

We multiplied each year's projected cost by the probability that premium will be paid; i.e. based on the probability that the employee is living, has not terminated employment and has retired. The probability that premium will be paid is zero if the employee is not eligible. The employee is not eligible if s/he has not met minimum service, minimum age or, if applicable, maximum age requirements.

The product of each year's premium cost and the probability that premium will be paid equals the expected cost for that year. We discounted the expected cost for each year to the valuation date March 1, 2009 at 7% interest.

Finally, we multiplied the above discounted expected cost figures by the probability that the retiree would elect coverage. A retiree may not elect to be covered if retiree health coverage is available less expensively from another source (e.g. Medicare risk contract) or the retiree is covered under a spouse's plan.

For current retirees, the approach used was similar. The major difference is that the probability of payment for current retirees depends only on mortality and age restrictions (i.e. for retired employees the probability of being retired and of not being terminated are always both 1.0000).

We added the APVPB for all employees to get the actuarial present value of total projected benefits (APVTPB). The APVTPB (sometimes called the expected postemployment benefit obligation or EPBO) is the estimated present value of all future retiree health benefits for all **current** employees and retirees. The APVTPB is the amount on March 1, 2009 that, if all actuarial assumptions are exactly right, would be sufficient to expense all promised benefits until the last current employee or retiree dies or reaches the maximum eligibility age.

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Actuarial Present Value of Total Projected Benefits

March 1, 2009	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Active: Pre-65	\$71,248,139	\$33,659,438	\$33,096,507	\$4,492,194
Post-65	\$0	\$0	\$0	\$0
Subtotal	\$71,248,139	\$33,659,438	\$33,096,507	\$4,492,194
Retiree: Pre-65	\$16,239,582	\$9,437,107	\$5,898,057	\$904,418
Post-65	\$0	\$0	\$0	\$0
Subtotal	\$16,239,582	\$9,437,107	\$5,898,057	\$904,418
Grand Total	\$87,487,721	\$43,096,545	\$38,994,564	\$5,396,612
Subtotal Pre-65	\$87,487,721	\$43,096,545	\$38,994,564	\$5,396,612
Subtotal Post-65	\$0	\$0	\$0	\$0

The APVTPB should be accrued over the working lifetime of employees. At any time much of it has not been "earned" by employees. The APVTPB is used to develop expense and liability figures. To do so, the APVTFB is divided into two parts: the portions attributable to service rendered prior to the valuation date (the past service liability or actuarial accrued liability under GASB 43 and 45) and to service after the valuation date but prior to retirement (the future service liability).

The past service and future service liabilities are each funded in a different way. We will start with the future service liability which is funded by the normal cost.

D. Cost to Prefund Retiree Benefits

1. Normal Cost

The average hire age for eligible employees is 33. To accrue the liability by retirement, the District would accrue the retiree liability over a period of about 27 years (assuming an average retirement age of 60). We applied an "entry age normal" actuarial cost method to determine funding rates for active employees. The table below summarizes the calculated normal cost.

Normal Cost Year Beginning

March 1, 2009	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
# of Employees	2154	1185	829	140
Per Capita Normal Cost				
Pre-65 Benefit	N/A	\$1,038	\$1,356	\$1,181
Post-65 Benefit	N/A	\$0	\$0	\$0
First Year Normal Cost				
Pre-65 Benefit	\$2,519,494	\$1,230,030	\$1,124,124	\$165,340
Post-65 Benefit	\$0	\$0	\$0	\$0
Total	\$2,519,494	\$1,230,030	\$1,124,124	\$165,340

Accruing retiree health benefit costs using normal costs would level out the cost of retiree health benefits

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over time and more fairly reflect the value of benefits "earned" each year by employees. This normal cost would increase each year based on covered payroll.

2. Amortization of Unfunded Actuarial Accrued Liability (UAAL)

If actuarial assumptions are borne out by experience, the District could fully accrue retiree benefits by expensing an amount each year that equals the normal cost. If no accruals had taken place in the past, there would be a shortfall of many years' contributions, accumulated interest and forfeitures for terminated or deceased employees. This shortfall is called the actuarial accrued liability (AAL). We calculated the AAL as the APVTPB minus the present value of future normal costs. We have offset the actuarial accrued liability by funds earmarked for retiree benefits to obtain the unfunded actuarial accrued liability. Earmarked funds are "as of" February 28, 2009.

The District can amortize the UAAL over many years. The table below shows the annual amount necessary to amortize the UAAL over a period of 30 years at 7% interest. (Thirty years is the longest amortization period allowable under GASB 43 and 45.) GASB 43 and 45 will allow amortizing the UAAL using either payments that stay the same as a dollar amount, or payments that are a flat percentage of covered payroll over time. The figures below reflect the level percentage of payroll method. This amortization payment would increase each year based on covered payroll. Payments would continue for 30 years, after which time amortization payments would end.

Actuarial Accrued Liability

as of March 1, 2009

	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Active: Pre-65	\$49,386,629	\$22,330,694	\$23,893,261	\$3,162,674
Post-65	\$0	\$0	\$0	\$0
Subtotal	\$49,386,629	\$22,330,694	\$23,893,261	\$3,162,674
Retiree: Pre-65	\$16,239,582	\$9,437,107	\$5,898,057	\$904,418
Post-65	\$0	\$0	\$0	\$0
Subtotal	\$16,239,582	\$9,437,107	\$5,898,057	\$904,418
Subtot Pre-65	\$65,626,212	\$31,767,801	\$29,791,319	\$4,067,092
Subtot Post-65	\$0	\$0	\$0	\$0
Grand Total	\$65,626,213	\$31,767,801	\$29,791,319	\$4,067,093
Initial Unamortized UAAL	\$51,938,570			
AVA at February 28, 2009	\$1,650,064			
Unfunded AAL	\$12,037,579			
1st Year UAAL Amortization at 7.0% over 30 Years	\$686,321			

3. Annual Required Contributions (ARC)

If the District determines retiree health plan expenses in accordance with GASB 43 and 45, first year costs will include both normal cost and UAAL amortization costs. The sum of normal cost and UAAL amortization costs is called the Annual Required Contribution (ARC) and is shown below.

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March 1, 2009	<u>Total</u>
Normal Cost	\$2,519,494
Initial UAAL Amortization	\$3,071,779
Add'l UAAL Amortization	\$686,321
ARC	<u>\$6,277,594</u>
Pay-As-You-Go Cost	\$4,889,630
Added Cost of GASB 43/45	<u>\$1,387,964</u>

This amortization payment would increase each year based on covered payroll. The normal cost remains as long as there are active employees who may some day qualify for District-paid retiree health benefits. This normal cost would increase each year based on covered payroll.

Should Pajaro Valley USD decide to fund retiree health benefits as shown above, the cost of current retiree benefits would be deducted from earmarked funds. This means the true cost is the difference between the ARC and "pay-as-you-go" costs. The above table shows the additional cost necessary to fund retiree health benefits.

4. Other Components of Annual OPEB Cost (AOC)

Once GASB 43 and 45 are implemented, the expense and liability amounts may include more components of cost than the normal cost plus amortization of the UAAL. This will apply to employers that don't fully fund the Annual Required Cost (ARC) through an irrevocable trust.

- The annual OPEB cost (AOC) will include assumed interest on the net OPEB obligation (NOO). The annual OPEB cost will also include an amortization adjustment for the net OPEB obligation. (It should be noted that there is no NOO if the ARC is fully funded through a qualifying "plan".)
- The net OPEB obligation will equal the accumulated differences between the (AOC) and qualifying "plan" contributions.

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PART IV: "PAY AS YOU GO" FUNDING OF RETIREE BENEFITS

We used the actuarial assumptions shown in Appendix C to project ten year cash flow under the retiree health program. Because these cash flow estimates reflect average assumptions applied to a relatively small number of employees, estimates for individual years are certain to be *in*accurate. However, these estimates show the size of needed cash flow and also the rate of increase in annual costs. Because we have used trend rates that are constant over time, it is likely that medical costs will be understated in some years and overstated in others.

The following table shows a projection of annual amounts needed to pay the District share of retiree health premiums.

Year				
Beginning				
March 1	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
2009	\$4,889,630	\$2,920,447	\$1,720,422	\$248,761
2010	\$4,767,879	\$2,704,535	\$1,809,094	\$254,250
2011	\$5,079,386	\$2,820,509	\$1,927,685	\$331,192
2012	\$5,480,017	\$2,969,516	\$2,118,278	\$392,223
2013	\$5,585,584	\$2,875,868	\$2,314,379	\$395,337
2014	\$5,960,225	\$2,877,121	\$2,596,779	\$486,325
2015	\$6,401,299	\$3,022,213	\$2,817,843	\$561,243
2016	\$6,496,998	\$3,105,490	\$2,944,726	\$446,782
2017	\$6,659,482	\$3,053,899	\$3,229,152	\$376,431
2018	\$6,931,089	\$3,097,725	\$3,419,535	\$413,829

PART V: RECOMMENDATIONS FOR FUTURE VALUATIONS

To effectively manage benefit costs, an employer must periodically examine the existing liability for retiree benefits as well as future annual expected premium costs. We recommend every two or three years as will be required under GASB 43/45. In addition, a valuation should be conducted whenever plan changes, changes in actuarial assumptions or other employer actions are likely to cause a material change in accrual costs and/or liabilities.

Following are examples of actions that could trigger a new valuation.

- An employer should perform a valuation whenever the employer considers or puts in place an early retirement incentive program.
- An employer should perform a valuation whenever the employer adopts a retiree benefit plan for some or all employees.
- An employer should perform a valuation whenever the employer considers or implements changes to retiree benefit provisions or eligibility requirements.
- An employer should perform a valuation whenever the employer introduces or changes retiree contributions.

We recommend Pajaro Valley USD take the following actions to ease future valuations.

- We have used our training, experience and information available to us to establish the actuarial assumptions used in this valuation. We have no information to indicate that any of the assumptions do not reasonably reflect future plan experience. However, the District should review the actuarial assumptions in Appendix C carefully. If the District has any reason to believe that any of these assumptions do not reasonably represent the expected future experience of the retiree health plan, the District should engage in discussions or perform analyses to determine the best estimate of the assumption in question.

PART VI: APPENDICES

APPENDIX A: MATERIALS USED FOR THIS STUDY

We relied on the following materials to complete this study.

- We used paper reports and digital files containing employee demographic data from the District personnel records.
- We used relevant sections of collective bargaining agreements provided by the District.

APPENDIX B: EFFECT OF ASSUMPTIONS USED IN CALCULATIONS

While we believe the estimates in this study are reasonable overall, it was necessary for us to use assumptions which inevitably introduce errors. We believe that the errors caused by our assumptions will not materially affect study results. If the District wants more refined estimates for decision-making, we recommend additional investigation. Following is a brief summary of the impact of some of the more critical assumptions.

1. Where actuarial assumptions differ from expected experience, our estimates could be overstated or understated. One of the most critical assumptions is the medical trend rate. The District may want to commission further study to assess the sensitivity of liability estimates to our medical trend assumptions. For example, it may be helpful to know how liabilities would be affected by using a trend factor 1% higher than what was used in this study.
2. We used an "entry age normal" actuarial cost method to estimate the actuarial accrued liability and normal cost. GASB will allow this as one of several permissible methods under its upcoming accounting standard. Using a different cost method could result in a somewhat different recognition pattern of costs and liabilities.

APPENDIX C: ACTUARIAL ASSUMPTIONS AND METHODS

Following is a summary of actuarial assumptions and methods used in this study. The District should carefully review these assumptions and methods to make sure they reflect the District's assessment of its underlying experience. It is important for Pajaro Valley USD to understand that the appropriateness of all selected actuarial assumptions and methods are Pajaro Valley USD's responsibility. Unless otherwise disclosed in this report, TCS believes that all methods and assumptions are within a reasonable range based on the provisions of GASB 43 and 45, applicable actuarial standards of practice, Pajaro Valley USD's actual historical experience, and TCS's judgement based on experience and training.

ACTUARIAL METHODS AND ASSUMPTIONS:

ACTUARIAL COST METHOD: Entry age normal. The allocation of OPEB cost is based on years of service. We used the level percentage of payroll method to allocate OPEB cost over years of service.

Entry age is based on the average age at hire for eligible employees. The attribution period is determined as the difference between the average retirement age and the average age at hire. The present value of future benefits and present value of future normal costs are determined on an employee by employee basis and then aggregated.

To the extent that different benefit formulas apply to different employees of the same class, the normal cost is based on the benefit plan applicable to the most recently hired employees (including future hires if a new benefit formula has been agreed to and communicated to employees).

AMORTIZATION METHODS: We used the level percentage of payroll method to allocate amortization cost by year. We used a closed 30-year amortization period for the initial UAAL. We used an open 30-year amortization period for additional UAAL.

SUBSTANTIVE PLAN: As required under GASB 43 and 45, we based the valuation on the substantive plan. The formulation of the substantive plan was based on a review of written plan documents as well as historical information provided by Pajaro Valley USD regarding practices with respect to employer and employee contributions and other relevant factors.

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ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 27 (ASOP 27). Among other things, ASOP 27 provides that economic assumptions should reflect a consistent underlying rate of general inflation. For that reason, we show our assumed long-term inflation rate below.

INFLATION: We assumed 3% per year.

INVESTMENT RETURN / DISCOUNT RATE: We assumed 7% per year. This is based on assumed long-term return on plan assets assuming 100% funding through the existing trust. We used the "Building Block Method" as described in ASOP 27 Paragraph 3.6.2. The District has not been fully funding the ARC. If the contribution shortfall is not made up by the next valuation, we will be required to reflect a lower interest assumption.

TREND: We assumed 4% per year. Our long-term trend assumption is based on the conclusion that, while medical trend will continue to be cyclical, the average increase over time cannot continue to outstrip general inflation by a wide margin. Trend increases in excess of general inflation result in dramatic increases in unemployment, the number of uninsured and the number of underinsured. These effects are nearing a tipping point which will inevitably result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. We do not believe it is reasonable to project historical trend vs. inflation differences several decades into the future.

PAYROLL INCREASE: We assumed 3% per year. This assumption applies only to the extent that either or both of the normal cost and/or UAAL amortization use the level percentage of payroll method. For purposes of applying the level percentage of payroll method, payroll increase must not assume any increases in staff or merit increases.

ACTUARIAL ASSET VALUATION: We used asset values provided by Pajaro Valley USD. We used a 15 year smoothing formula subject to a 20% corridor around market value.

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NON-ECONOMIC ASSUMPTIONS:

Economic assumptions are set under the guidance of Actuarial Standard of Practice 35 (ASOP 35).

MORTALITY: CalSTRS mortality for certificated employees.
CalPERS mortality for Miscellaneous employees.

RETIREMENT RATES: CalSTRS retirement rates for certificated employees.
CalPERS retirement rates for the 2 %@ 55 pension formula for other employees.

VESTING RATES:

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Vesting Percentage	100%	100%	100%
Vesting Period	10 years	10 years	10 years

COSTS FOR RETIREE COVERAGE:

We based costs on actual retiree claims and expenses. First Year costs are as shown below. Subsequent years' costs are based on first year costs adjusted for trend and limited by any District contribution caps.

	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Current Retirees: based on actual costs			
<u>Current Plan:</u>			
Future Retirees Pre-65	\$16,807	\$19,078	\$17,822
Future Retirees Post-65	\$0	\$0	\$0

PARTICIPATION RATES: 100%

TURNOVER: CalSTRS turnover for certificated employees.
CalPERS turnover for Miscellaneous employees.

SPOUSE PREVALENCE: To the extent not provided and when needed to calculate benefit liabilities, 80% of retirees assumed to be married at retirement. After retirement, the percentage married is adjusted to reflect mortality.

SPOUSE AGES: To the extent spouse dates of birth are not provided and when needed to calculate benefit liabilities, female spouse assumed to be three years younger than male.

AGING FACTORS:

<u>Attained Age</u>	<u>Medical Annual Increases</u>
50-64	3.5%
65-69	3.0
70-74	2.5
75-79	1.5
80-84	0.5
85+	0.0

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APPENDIX D: DISTRIBUTION OF ELIGIBLE PARTICIPANTS BY AGE

ELIGIBLE ACTIVE EMPLOYEES:

<u>Age</u>	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Under 25	66	25	40	1
25-29	215	129	81	5
30-34	233	153	67	13
35-39	272	169	81	22
40-44	278	130	129	19
45-49	303	156	129	18
50-54	363	189	150	24
55-59	291	153	110	28
60-64	133	81	42	10
65 and older	0	0	0	0
Total	2154	1185	829	140

ELIGIBLE RETIREES:

<u>Age</u>	<u>Total</u>	<u>Certificated</u>	<u>Classified</u>	<u>Management</u>
Under 50	0	0	0	0
50-54	0	0	0	0
55-59	79	44	30	5
60-64	186	125	54	7
65-69	0	0	0	0
70-74	0	0	0	0
75-79	0	0	0	0
80-84	0	0	0	0
85-89	0	0	0	0
90 and older	0	0	0	0
Total	265	169	84	12

APPENDIX E: GLOSSARY OF RETIREE HEALTH VALUATION TERMS

Note: The following definitions are intended to help a *non*-actuary understand concepts related to retiree health valuations. Therefore, the definitions may not be actuarially accurate.

<u>Actuarial Accrued Liability:</u>	The amount of the actuarial present value of total projected benefits attributable to employees' past service based on the actuarial cost method used.
<u>Actuarial Cost Method:</u>	A mathematical model for allocating OPEB costs by year of service.
<u>Actuarial Present Value of Total Projected Benefits:</u>	The projected amount of all OPEB benefits to be paid to current and future retirees discounted back to the valuation date.
<u>Actuarial Value of Assets:</u>	Market-related value of assets which may include an unbiased formula for smoothing cyclical fluctuations in asset values.
<u>Annual OPEB Cost:</u>	This is the amount employers must recognize as an expense each year. The annual OPEB expense is equal to the Annual Required Contribution plus interest on the Net OPEB obligation minus an adjustment to reflect the amortization of the net OPEB obligation.
<u>Annual Required Contribution:</u>	The sum of the normal cost and an amount to amortize the unfunded actuarial accrued liability. This is the basis of the annual OPEB cost and net OPEB obligation.
<u>Closed Amortization Period:</u>	An amortization approach where the original ending date for the amortization period remains the same. This would be similar to a conventional, 30-year mortgage, for example.
<u>Discount Rate:</u>	Assumed investment return net of all investment expenses. Generally, a higher assumed interest rate leads to lower normal costs and actuarial accrued liability.
<u>Implicit Rate Subsidy:</u>	The estimated amount by which retiree rates are understated in situations where, for rating purposes, retirees are combined with active employees.
<u>Mortality Rate:</u>	Assumed proportion of people who die each year. Mortality rates always vary by age and often by sex. A mortality table should always be selected that is based on a similar "population" to the one being studied.
<u>Net OPEB Obligation:</u>	The accumulated difference between the annual OPEB cost and amounts contributed to an irrevocable trust exclusively providing retiree OPEB benefits and protected from creditors.
<u>Normal Cost:</u>	The dollar value of the "earned" portion of retiree health benefits if retiree health benefits are to be fully accrued at retirement.

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<u>OPEB Benefits:</u>	Other PostEmployment Benefits. Generally medical, dental, prescription drug, life, long-term care or other postemployment benefits that are not pension benefits.
<u>Open Amortization Period:</u>	Under an open amortization period, the remaining unamortized balance is subject to a new amortization schedule each valuation. This would be similar, for example, to a homeowner refinancing a mortgage with a new 30-year conventional mortgage every two or three years.
<u>Participation Rate:</u>	The proportion of retirees who elect to receive retiree benefits. A lower participation rate results in lower normal cost and actuarial accrued liability. The participation rate often is related to retiree contributions.
<u>Retirement Rate:</u>	The proportion of active employees who retire each year. Retirement rates are usually based on age and/or length of service. (Retirement rates can be used in conjunction with vesting rates to reflect both age and length of service). The more likely employees are to retire early, the higher normal costs and actuarial accrued liability will be.
<u>Transition Obligation:</u>	The amount of the unfunded actuarial accrued liability at the time actuarial accrual begins in accordance with an applicable accounting standard.
<u>Trend Rate:</u>	The rate at which the cost of retiree benefits is expected to increase over time. The trend rate usually varies by type of benefit (e.g. medical, dental, vision, etc.) and may vary over time. A higher trend rate results in higher normal costs and actuarial accrued liability.
<u>Turnover Rate:</u>	The rate at which employees cease employment due to reasons other than death, disability or retirement. Turnover rates usually vary based on length of service and may vary by other factors. Higher turnover rates reduce normal costs and actuarial accrued liability.
<u>Unfunded Actuarial Accrued Liability:</u>	This is the excess of the actuarial accrued liability over assets irrevocably committed to provide retiree health benefits.
<u>Valuation Date:</u>	The date as of which the OPEB obligation is determined. Under GASB 43 and 45, the valuation date does not have to coincide with the statement date.
<u>Vesting Rate:</u>	The proportion of retiree benefits earned, based on length of service and, sometimes, age. (Vesting rates are often set in conjunction with retirement rates.) More rapid vesting increases normal costs and actuarial accrued liability.

Board Agenda Back-up

ITEM #

14.4

DATE: December 9, 2009

ITEM: Supplemental Early Retirement Program (SERP) Incentive, Certificated Non-Management
RESOLUTION #09-10-07

OVERVIEW: The attached documents outline the potential establishment of a retirement incentive plan for certain eligible employees of the District.

The Retirement Plan will be referred to as the **Pajaro Valley Unified School District Supplemental Employees Retirement Plan (SERP).**

The eligibility requirements for employees to participate in the plan would be as follows:

95% of Base Salary as Spend Amount

- Tenured Certificated Non Management
- 55 Years of age by June 30, 2010
- 10 Years at 6/30/2010 of continuous PVUSD service (7/1/00-6/30/10)
- Employee must retire from the district effective June 30, 2010
- Employee must qualify to retire from STRS
- Employee will not be eligible for reemployment in the district other than as a substitute. And only as a substitute as eligible under the new law implemented (AB 506) and effective July 1, 2010.
- Individuals previously retired from STRS are not eligible
- Before the plan can be implemented an analysis must be run to ensure the individuals signed up for the plan do ultimately enable the district to have a savings or break even implementation.
- The estimated breakeven point is 38 employees
- No individual may take more than one SERP from PVUSD
- Additional request to be presented at the board meeting

RECOMMENDATION:

It is recommended that the Board approve the proposed retirement incentive plan to be discussed with the bargaining unit

BUDGET CONSIDERATIONS:

Funding Source: Appropriate fund for each retiree

Budgeted: NA

Amount: Estimated savings \$ 1.3 million over 5 years

Assistant Superintendent, Human Resources: Albert Roman

SUPERINTENDENT SIGNATURE: *Mary Ann for Donna Baker*

BOARD RESOLUTION
MEETING MINUTES
OF THE
PAJARO VALLEY UNIFIED SCHOOL DISTRICT

Resolution #09-10-07

On November 18, 2009, the Board of Education (the "Board") of the Pajaro Valley Unified School District (the "District") held a meeting. All members of the Board were present except the following:

On motion of Board Member _____, duly seconded and carried, the following Resolution was adopted:

WHEREAS, California Government Code Section 53224 authorizes school districts to make contributions to retirement plans; and

WHEREAS, the Pajaro Valley Unified School District desires to provide retirement benefits to its employees under such a plan; and

THEREFORE, IT IS RESOLVED that the Board of Education of Pajaro Valley Unified School District hereby establishes a retirement plan for certain eligible employees of the District effective July 1, 2010.

RESOLVED FURTHER that the eligibility requirements for employees to participate in such plan shall be as follows:

95% of Base Salary as Spend Amount

- Tenured Certificated Non Management
- 55 Years of age by June 30, 2010
- 10 Years at 6/30/2010 of continues PVUSD service (7/1/2000-6/30/10)
- Employee must retire from the district effective June 30, 2010
- Employee must qualify to retire from STRS
- Employee will not be eligible for re-employment in the district other than as a substitute. And only as a substitute as eligible under the new law implemented (AB 506) and affective July 1, 2010 for STRS employees.
- Individuals previously retired from STRS are not eligible
- Before the plan can be implemented an analysis must be run to ensure the individuals signed up for the plan do ultimately enable the district to have a savings or break even implementation.
- The estimated breakeven point is 38 employees
- No individual may take more than one SERP from the District

RESOLVED FURTHER that the Board hereby adopts that certain plan known as the Pajaro Valley Unified School District Supplemental Employee Retirement Plan, effective July 1, 2010.

RESOLVED FURTHER that the Life Only benefit under such Plan shall be based on a 95% of base salary as determined by the district per the requirements before mentioned.

RESOLVED FURTHER that the District shall make all contributions to the Plan to fund said benefits.

RESOLVED FURTHER that, for purposes of the limitations on contributions and benefits under the Plan, as prescribed by section 415 of the Internal Revenue Code of 1986, as amended, the "limitation year" shall be the Plan Year, as defined under the terms and provisions of the Plan.

RESOLVED FURTHER that, for purposes of clarification of administration of the Plan but not for purposes of making said Plan subject to title I of ERISA, the Board hereby designates the District as the plan administrator.

RESOLVED FURTHER that the Board hereby appoints the following individuals to comprise the Plan Committee:

Albert Roman
Assistant Superintendent Human Resources

Mary Hart
Associate Superintendent, Business

RESOLVED FURTHER that the Board hereby authorizes any member of the Plan Committee to execute on behalf of the District the Form 2848, Power of Attorney and Declaration of Representative.

RESOLVED FURTHER that the Board hereby appoints Keenan & Associates as the contract administrator to assist the District in the implementation and administration of the Plan.

RESOLVED FURTHER that the Board hereby authorizes and directs Assistant Superintendent, Human Resources and Associate Superintendent, Business to take the following actions:

- A. Execute the Plan and any and all other documents necessary or proper to implement the Plan.
- B. Contract with Keenan & Associates as contract administrator to provide all services described in the contract.
- C. Execute any and all documents, including any amendment to the Plan, necessary or proper to maintain favorable determination of the Plan.
- D. Enter into any other contract or agreement which he or she deems necessary or proper to administer and/or fund the Plan and to attain and maintain the income tax qualification of the Plan under the Internal Revenue Code of 1986, as amended.

AYES:

NOES:

ABSENT:

ABSTAIN:

DATED: _____, 2009

BOARD MEMBERS:

Leslie De Rose
Libby Wilson
Sandra Nichols
Doug Keegan
Karen Osmundson
Willie Yahiro
Kim Turley

I, Dorma Baker, Secretary of the Board for the Pajaro Valley Unified School District, hereby certify that the above and the foregoing Resolution was duly and regularly adopted by the said Board at a regular meeting thereof on the 9th day of December 2009, and passed by a majority vote of said Board.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 9th day of December 2009.

Secretary of the Board of Education for the
Pajaro Valley Unified School District

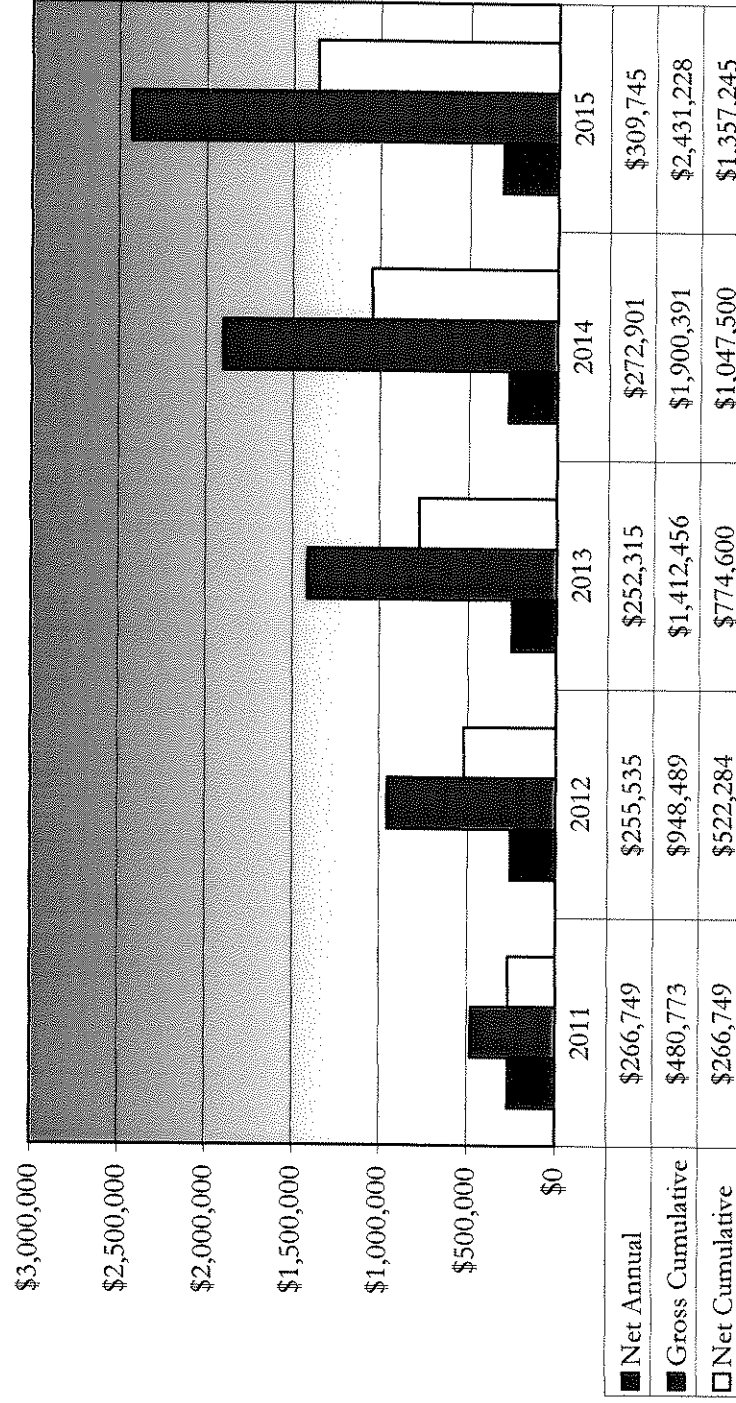
Pajaro Valley Unified School District

Certificated

95% of Salary

Cost Analysis

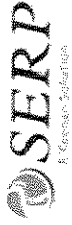
Annual & Cumulative Savings



School Year Ending

Keenan
Financial Services

License # 0451271



Pajaro Valley Unified School District Summary Sheet

Classification	Plan Type	Number of Eligible	Normal Attrition	Projected Number of Retirees	Projected % of Eligible Retirees	Average Salary	Average Lifetime Benefit	Period Certain \$	Average Cost Per Retiree	Average Plan Savings per Employee	Total Projected Savings	Savings with No Plan	Total Projected Net Savings
Administration	95% of Salary (EOY) with HC - 3 not replaced	37	2	10	27%	\$95,595	\$459.79	\$1,417.76	\$90,815	\$67,236	\$672,356	\$316,102	\$356,254

Classification	Plan Type	Number of Eligible	Normal Attrition	Projected Number of Retirees	Projected % of Eligible Retirees	Average Salary	Average Lifetime Benefit	Period Certain \$	Average Cost Per Retiree	Average Plan Savings per Employee	Total Projected Savings	Savings with No Plan	Total Projected Net Savings
Certificated	95% of Salary (EOY) with HC - 0 not replaced	281	12	85	30%	\$64,401	\$307.79	\$920.58	\$60,896	\$28,603	\$2,431,228	\$1,073,983	\$1,357,245

Total with HC		318	14	95	29%	\$79,848	\$3,103,584						
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Total with no HC		-	-	-	-	-	-						
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Board Agenda Back-up

ITEM #

14.5

DATE: December 9, 2009

ITEM: Supplemental Early Retirement Program (SERP) Incentive, Certificated and Classified Management
RESOLUTION 09-10-08

OVERVIEW: The attached documents outline the potential establishment of a retirement incentive plan for certain eligible employees of the District.

The Retirement Plan will be referred to as the Pajaro Valley Unified School District Supplemental Employees Retirement Plan (SERP).

The eligibility requirements for employees to participate in the plan would be as follows:

95% of Base Salary as Spend Amount

- Certificated and Classified Management
- 55 Years of age by June 30, 2010
- 10 Years of continuous PVUSD service, including service as a regular certificated or classified manager in the 2009-2010 school year.
- Employee must retire from the district by June 30, 2010
- Employee must qualify to retire from STRS and PERS
- Employee will not be eligible for reemployment in the district other than as a substitute. And only as a substitute as eligible under the new law implemented (AB 506) and affective July 1, 2010 for STRS employees.
- Individuals previously retired from STRS or PERS are not eligible
- Before the plan can be implemented an analysis must be run to ensure the individuals signed up for the plan do ultimately enable the district to have a savings or break even implementation.
- No individual can take more than one SERP from PVUSD

Additional request to be presented at the board meeting

RECOMMENDATION:

It is recommended that the Board approve the proposed retirement incentive plan to be discussed with the bargaining unit

BUDGET CONSIDERATIONS:

Funding Source: Appropriate fund for each retiree

Budgeted: NA

Amount: Estimated savings \$ 346K over 5 years

Assistant Superintendent, Human Resources: Albert Roman

SUPERINTENDENT SIGNATURE:

May 14 for Darma Baker

BOARD RESOLUTION
MEETING MINUTES
OF THE
PAJARO VALLEY UNIFIED SCHOOL DISTRICT

09-10-08

On November 18, 2009, the Board of Education (the "Board") of the Pajaro Valley Unified School District (the "District") held a meeting. All members of the Board were present except the following:

On motion of Board Member _____, duly seconded and carried, the following Resolution was adopted:

WHEREAS, California Government Code Section 53224 authorizes school districts to make contributions to retirement plans; and

WHEREAS, the Pajaro Valley Unified School District desires to provide retirement benefits to its employees under such a plan; and

THEREFORE, IT IS RESOLVED that the Board of Education of Pajaro Valley Unified School District hereby establishes a retirement plan for certain eligible employees of the District effective July 1, 2010.

RESOLVED FURTHER that the eligibility requirements for employees to participate in such plan shall be as follows:

95% of Base Salary as Spend Amount

- Certificated and Classified Management
- 55 Years of age by June 30, 2010
- 10 Years of continuous PVUSD service, including service as a regular certificated or classified manager in the 2009-2010 school year
- Employee must retire from the district by June 30, 2010
- Employee must qualify to retire from STRS or PERS
- Employee will not be eligible for re-employment in the district other than as a substitute. And only as a substitute as eligible under the new law implemented (AB 506) and effective July 1, 2010 for STRS employees.
- Individuals previously retired from STRS or PERS are not eligible
- Before the plan can be implemented an analysis must be run to ensure the individuals signed up for the plan do ultimately enable the district to have a savings or break even implementation.
- No individual may receive more than one SERP from the district

RESOLVED FURTHER that the Board hereby adopts that certain plan known as the Pajaro Valley Unified School District Supplemental Employee Retirement Plan, effective July 1, 2010.

RESOLVED FURTHER that the Life Only benefit under such Plan shall be based on a 95% of base salary as determined by the district per the requirements before mentioned.

RESOLVED FURTHER that the District shall make all contributions to the Plan to fund said benefits.

RESOLVED FURTHER that, for purposes of the limitations on contributions and benefits under the Plan, as prescribed by section 415 of the Internal Revenue Code of 1986, as amended, the "limitation year" shall be the Plan Year, as defined under the terms and provisions of the Plan.

RESOLVED FURTHER that, for purposes of clarification of administration of the Plan but not for purposes of making said Plan subject to title I of ERISA, the Board hereby designates the District as the plan administrator.

RESOLVED FURTHER that the Board hereby appoints the following individuals to comprise the Plan Committee:

Albert Roman
Assistant Superintendent Human Resources

Mary Hart
Associate Superintendent, Business

RESOLVED FURTHER that the Board hereby authorizes any member of the Plan Committee to execute on behalf of the District the Form 2848, Power of Attorney and Declaration of Representative.

RESOLVED FURTHER that the Board hereby appoints Keenan & Associates as the contract administrator to assist the District in the implementation and administration of the Plan.

RESOLVED FURTHER that the Board hereby authorizes and directs Assistant Superintendent, Human Resources and Associate Superintendent, Business to take the following actions:

- A. Execute the Plan and any and all other documents necessary or proper to implement the Plan.
- B. Contract with Keenan & Associates as contract administrator to provide all services described in the contract.
- C. Execute any and all documents, including any amendment to the Plan, necessary or proper to maintain favorable determination of the Plan.
- D. Enter into any other contract or agreement which he or she deems necessary or proper to administer and/or fund the Plan and to attain and maintain the income tax qualification of the Plan under the Internal Revenue Code of 1986, as amended.

AYES:

NOES:

ABSENT:

ABSTAIN:

DATED: _____, 2009

BOARD MEMBERS:

Leslie De Rose
Libby Wilson
Sandra Nichols
Doug Keegan
Karen Osmundson
Willie Yahiro
Kim Turley

I, Dorma Baker, Secretary of the Board for the Pajaro Valley Unified School District, hereby certify that the above and the foregoing Resolution was duly and regularly adopted by the said Board at a regular meeting thereof on the 9th day of December 2009, and passed by a majority vote of said Board.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this 9th day of December 2009.

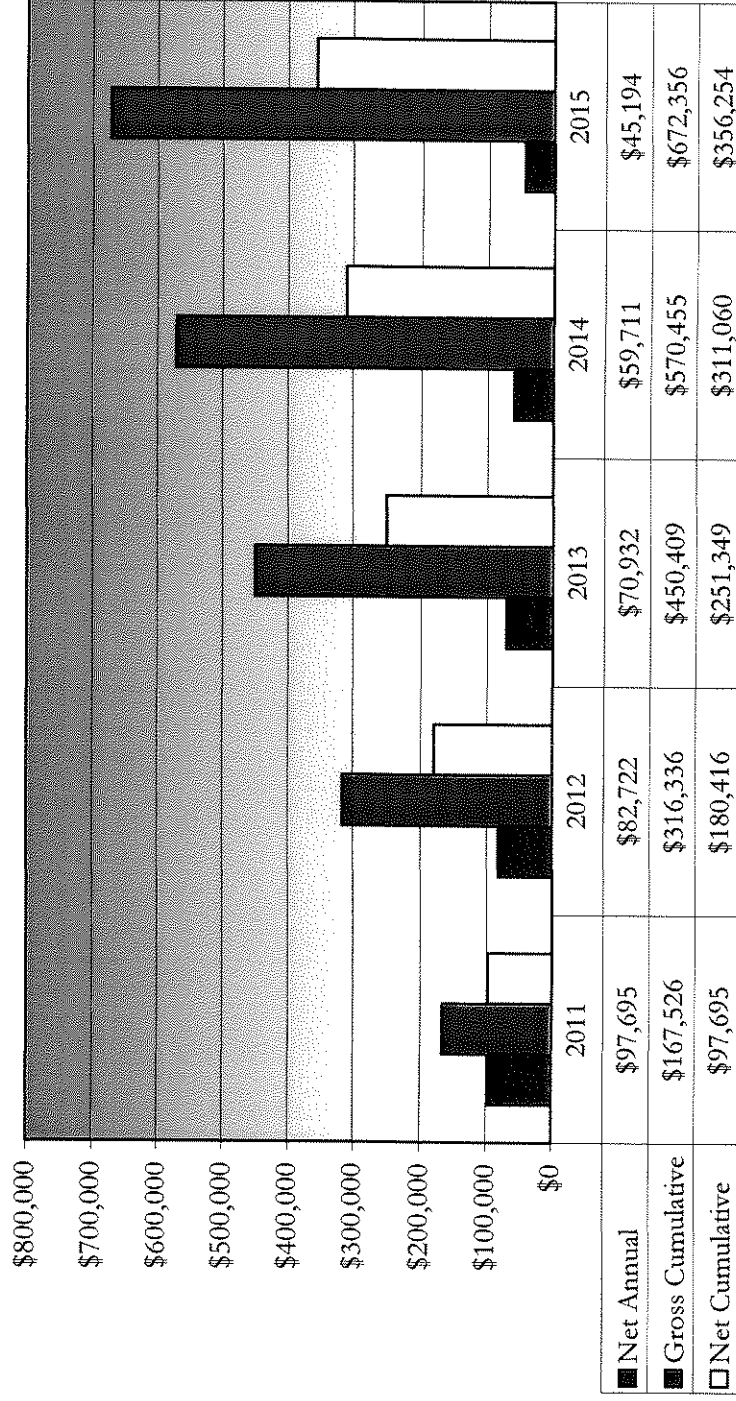
Secretary of the Board of Education for the
Pajaro Valley Unified School District

Pajaro Valley Unified School District

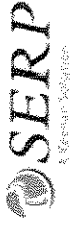
Cost Analysis

Administration
95% of Salary

Annual & Cumulative Savings



School Year Ending



Pajaro Valley Unified School District Summary Sheet

Classification	Plan Type	Number of Eligible	Normal Attrition	Projected Number of Retirees	% of Eligible Retirees	Average Salary	Average Lifetime Benefit	Period Certain 5	Average Cost Per Retiree	Average Plan Savings per Employee	Total Projected Savings	Savings with No Plan	Total Projected Net Savings
Administration	95% of Salary (EOY) with HC - 3 not replaced	37	2	10	27%	\$95,595	\$459.79	\$1,417.76	\$90,815	\$67,236	\$672,356	\$316,102	\$356,254

Classification	Plan Type	Number of Eligible	Normal Attrition	Projected Number of Retirees	% of Eligible Retirees	Average Salary	Average Lifetime Benefit	Period Certain 5	Average Cost Per Retiree	Average Plan Savings per Employee	Total Projected Savings	Savings with No Plan	Total Projected Net Savings
Certificated	95% of Salary (EOY) with HC - 0 not replaced	281	12	85	30%	\$64,101	\$307.79	\$920.58	\$60,896	\$28,603	\$2,431,228	\$1,073,983	\$1,357,245

Total with HC		318	14	95	29%	\$79,848					\$3,103,584		\$1,713,499
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Total with no HC		-	-	-	-	-	-	-	-	-	-	-	-
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Board Agenda Backup

Item No: 14.6

Date: December 9, 2009

Item: Provisional Internship Permit

Overview: Although the District practices aggressive efforts in teacher recruitment, shortages of appropriately credentialed teachers still exist. In order for the District to employ a sufficient number, teachers must be hired on Provisional Internship Permit.

The Provisional Internship Permit (PIP) was created in response to the phasing out of emergency permits. It allows an employing agency to fill an immediate staffing need by hiring an individual who has not yet completed their credentialing program.

Recommendation: It is recommended that the board approve the appointment of these teachers on a Provisional Internship Permit. Board approval is required by the Commission on Teacher Credentialing.

Budget Considerations: N/A

Funding Source:

Budgeted: Yes: ☐ No: ☐

Amount: \$

Prepared By: Dr. Albert J. Roman

Superintendent's Signature:

May, Hat for Donna Baker

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

CERTIFICATED PERSONNEL

December 9, 2009

TO: Members of the Governing Board
FROM: Dr. Albert Roman, Asst. Superintendent, Human Resources
SUBJECT: Personnel Action

The following appointments have been made for the 2008-2009 School Year:

<u>NAME</u>	<u>SITE/PROGRAM</u>	<u>POSITION</u>	<u>EFF. DATES</u>	<u>PIP TYPE</u>
Marion Mensinger	WHS	English	08/10/2009-06/30/2010	Single Subject



State Of California
California Commission On Teacher Credentialing
Box 944270
1900 Capitol Avenue
Sacramento, CA 94244-2700

Telephone:
(916) 445-7254 or (888) 921-2682
E-mail: credentials@ctc.ca.gov
Web site: www.ctc.ca.gov

VERIFICATION OF REQUIREMENTS For the Provisional Internship Permit

This form must be completed by the employing agency and submitted with each application for a Provisional Internship Permit.

Name of Applicant Marion Mensinger

SSN _____

Name of Employing Agency Pajaro Valley Unified School District

County/District/CDS Code 44/69799

☐ Multiple Subject

☒ Single Subject - Specify subject(s): English

☐ Education Specialist - Specify disability area(s): _____

By submitting this form, the employing agency named above verifies that items 1-6 have been completed.

1. A diligent search has been conducted for a suitable credentialed teacher or qualified internship teacher by the following methods and verification of such recruitment efforts is attached:

Required recruitment methods (provide photocopies of **all** of the following):

- ☒ Distributed job announcements
☒ Contacted college or university placement centers
☒ Advertised on the Internet

Optional recruitment methods (in addition to the required methods above):

- ☐ Advertised in professional journals
☐ Attended job fairs in California
☐ Attended recruitment out-of-state
☐ Contacted California teacher recruitment centers
☐ Advertised in local/national newspapers
☐ Other (explain) _____

2. The permit holder will be provided orientation, guidance and assistance during the valid period of the permit

3. Public notice of intent to employ the applicant in the identified position has been given and meets the following criteria (check the box that applies):

☒ **Public School District**

Public notice was presented as an action item on the governing board agenda and acted upon favorably. A copy of the agenda item is attached.

The agenda item included the applicant's name, assignment, including subject(s) grade level(s), school site, and a statement that the applicant will be employed on the basis of a Provisional Internship Permit.

(continued)

☐ **County Offices of Education, Nonpublic Schools, Statewide Agencies, and Charter Schools**

Public notice was posted at least 72 hours before the position was filled. A copy of the dated notice is attached.

Public notice included the applicant's name, assignment, including subject(s) grade level(s), school site, and a statement that the applicant will be employed on the basis of a Provisional Internship Permit.

Public notice included a signed statement from the superintendent or administrator confirming there were no objections to the issuance of the permit.

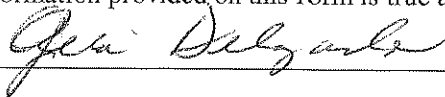
4. The permit holder will be provided assistance in developing a personalized plan through an agency-defined assessment that would lead to meeting subject matter competence related to the permit
5. The permit holder will be provided assistance to seek and enroll in subject matter training, such as workshops or seminars and site-based courses along with training in test-taking strategies and will assist the permit holder in meeting subject matter competence related to the permit
6. The candidate has been apprised of the steps required to earn a credential and enroll in an internship program

Employing Agency Certification

This form must be signed by the District/County Superintendent, Personnel Administrator, NPS/NPA Administrator, or Designee.

I certify under penalty of perjury that the information provided on this form is true and correct.

Signature _____



Title _____

Human Resource Analyst

Date _____

12/01/2009

PAJARO VALLEY UNIFIED SCHOOL DISTRICT



Board Agenda Backup

Item No: 14.7

Date: December 9, 2009

Action Item

Subject: **RESOLUTION NO. 09-10-13 AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN LEGAL DOCUMENTS AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS WITH RESPECT THERETO**

Related to: *Refinancing of \$1,415,000 Principal Balance of the 2000 School Facility Funding Program COPs and entering into a Lease Agreement with Zion's Bank for a Lease-Purchase Refinancing*

BACKGROUND INFORMATION

The Pajaro Valley Unified School District Financing Corporation

In July of 2000, the Pajaro Valley Unified School District's (the "District") Board of Trustees (the "District Board") approved a Resolution which authorized the formation of the Pajaro Valley Unified School District Financing Corporation (the "Corporation"). The Corporation is currently serving as Lessor under the District's 2000 School Facility Bridge Funding Program (the "2000 Financing") originally consisting of \$13,000,000 of Certificates of Participation issued as weekly adjustable rate securities. *The Corporation's sole purpose for formation was to assist the District with current and future financing needs.* The Corporation's Board of Directors consists of the members of the District's Board of Trustees. The Board President acts as President of the Corporation, the Board Clerk acts as Vice President and the Secretary of the Board acts as Secretary of the Corporation. Other Board members act as Directors of the Corporation

The purpose of the corporation is to act as Lessor to the District when issuing certificates of participation or lease revenue bonds. Under California Law, the District needs a separate legal entity to act as Lessor while the District acts as Lessee. Such an entity may be an independent third party but a third party lessor introduces complications and expenses to the District that do not exist when the Board of Trustees sits as the Directors of a non-profit, public benefit corporation. The main complication relates to the California State Board of Equalization whereby taxes may be levied on properties owned by for profit corporations such as a bank providing lease-purchase financing. Although such taxes are usually waived upon appeal, the process of the appeal can be time-consuming and expensive. A secondary complication arises as

the result of merger or bankruptcy of a third party lessor which may also trigger complex and expensive legal issues. Finally, utilizing a third party non-profit lessor introduces a cost of between \$1,000 and \$2,500 per year for performing a service that involves little or no actual activity once the financing is authorized and closed.

For these reasons, the Board chose to form its own non-profit corporation to assist the District in financing and refinancing real and personal property as part of the 2000 Financing.

Projects Financed

The District implemented the 2000 financing to accomplish the following objectives:

To provide reimbursement and interim funding for State eligible projects including the Ann Soldo Elementary School and the Pajaro Valley High School. The COPs reimbursed the District for expenses incurred on the Ann Soldo Elementary School in the amount of \$9,380,000. This reimbursement was subsequently used to fund other District projects including projects requiring matching funds to realize State grant funding. The Pajaro Valley High School project utilized funds from the 2000 Financing as expenses were incurred.

Status of 2000 Financing

The District's 2000 Financing was funded by the issuance of variable rate Certificates of Participation ("COPs"). After taking into account the partial prepayment/reimbursement of the COPs with general obligation bonds, costs of issuance from the 2000 Financing, capitalized interest on the 2000 financing prior to prepayment/reimbursement and principal reductions from ongoing debt service payments, the current outstanding principal balance under the 2000 Financing is \$1,415,000.

CURRENT STATUS

2009 Letter of Credit Issue

The 2000 Financing was originally secured by a letter of credit from First Union Bank. It is necessary to have a letter of credit bank to market adjustable rate securities. The 2000 Financing has a weekly reset of its interest rate at which time investors have the option to tender their COPs for resale to other investors. If other investors fail to purchase such COPs, the letter of credit bank is obligated to purchase the bonds on behalf of the District. As a result, adjustable rate securities require the involvement of a letter of credit bank in order to be marketable to investors.

Upon expiration of that letter of credit (First Union was acquired and withdrew from the marketplace), Wachovia Bank was retained to act as letter of credit bank. Wachovia Bank was subsequently purchased by Wells Fargo Bank last year as part of the TARP program bank restructuring. Wells Fargo has informed the District that it is not interested in renewing the Wachovia letter of credit. They extended the letter of credit earlier this year to provide the District time to find a replacement bank. The Wachovia letter of credit expires again later this month and the bank has made clear that it wants to understand the District's plan for the 2000 Financing that will make it possible for them to terminate their existing role.

Due to turmoil in the banking industry and changing market conditions in the municipal bond market, the number of banks offering letters of credit has contracted sharply. The cost of letters of credit, when available, has increased significantly. Every attempt was made to find a replacement letter of credit at any price. After an exhaustive effort, California Financial Services (CFS) was unable to find a new letter of credit to substitute for the expiring Wachovia Bank instrument. The lack of interest was due in part to the small size of the remaining balance of the 2000 Financing, but, more importantly, to the reluctance of virtually all banks to engage in providing letters of credit to entities that rely on the State of California for funding.

Decision to Pursue Alternative to Letter of Credit Based Structure

As a result, CFS began the process of converting the COPs to a fixed rate financing. Because of the small size of the remaining balance, CFS has identified utilizing a privately place lease-purchase obligation as the most economically advantageous approach to refinancing the balance of the 2000 Financing. As part of its analysis, CFS identified the Zion's Bank five year adjustable rate program as the most cost-effective alternative for refinancing the 2000 Financing.

The Zion's Bank Structure

The Zion's Bank lease-purchase agreement provides the District with a five year rate of 4.04% with no prepayment penalties and a total cost of issuance of \$48,000. The interest rate has been locked for the District through January 15, 2010 by which date we expect to have completed the refinancing. If the lock expires due to unforeseen circumstances, staff is recommending a not to exceed rate of 4.25%. An additional closing expense of approximately \$28,000 which includes accrued interest, remarketing and letter of credit fees through February 1, 2010 will be due at the time the 2000 Financing is retired on February 1, 2010.

The financing will have a 25 year term and can be prepaid without any penalty at any time. Payments and prepayments can be made from the general fund, developer fees or the proceeds of a general obligation bond if authorized by the voters of the District. On the fifth anniversary of the closing date, the rate will be reset based on an index equal to 85% of the Federal Home Loan Bank Rate at the Seattle Branch. Subsequent rate resets will occur every five years based on the same index until the financing is paid in full.

Taking into account the existing fund balances held by the trustee bank for the 2000 Financing, the principal balance of the 2010 Lease-Purchase Zion's Bank financing will remain at \$1,415,000 including all issuance and closing costs.

FINANCIAL IMPACT

By refinancing with Zion's Bank the District will avoid paying a traditional fixed rate of approximately 4.80% for fixed rate publicly offered COPs – producing an interest rate savings of .76% per year during the initial five year term. In addition, the District will save approximately \$135,000 of issuance costs by not incurring the expenses for legal counsel, ratings, official statement printing and underwriter placement fees by refinancing with a lease-purchase that is privately placed with a single bank.

By refinancing, the District will be reducing its net debt service payment (net to the general fund including letter of credit bank fees and remarketing agent fees) from \$54,984.07 in 2008/09 (the last full budgetary period) to \$51,980 per year for the next five years.

RECOMMENDATION

Adopt **RESOLUTION 09-010-13** authorizing District staff to enter into a lease agreement with Zion's bank for an amount not to exceed \$1,415,000 at an approved rate of 4.04% (good through January 15) and a not to exceed 4.25% in any case. By authorizing this resolution, all outstanding 2000 Financing COPs are projected to be retired on February 1, 2010.

Budget Considerations:

Funding Source: General

Budgeted: Yes: X No:

Amount:

Prepared By:

**Associate
Superintendent:**

Mary Hart

Superintendent's Signature:

RESOLUTION NO. 09-10-13

RESOLUTION AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN
LEASE FINANCING DOCUMENTS AND AUTHORIZING AND DIRECTING
CERTAIN ACTIONS WITH RESPECT THERETO

RESOLVED, by the Governing Board (the "Governing Body") of Pajaro Valley Unified School District, Watsonville, California (the "District"), as follows:

WHEREAS, the District proposes to finance the costs of the acquisition, construction, installation, and/or equipping of certain land and/or capital improvements thereon and/or equipment related thereto through a lease of certain real property and/or equipment located at the location(s) all as described and specified in the hereinafter described Lease Agreement and/or exhibit(s) thereto (the "Property"), excluding any existing land, facilities, and/or equipment, if any, to the extent not included in such descriptions and specifications of the Property to be leased there under, for use by the District (the "Project");

WHEREAS, the District has determined to finance the Project by entering into a lease agreement (the "Lease Agreement") with the Pajaro Valley Unified School District Financing Corporation (the "Corporation");

WHEREAS, it is in the public interest and for the public benefit that the District authorize and direct execution of a lease agreement with the Corporation and certain other financing documents in connection therewith;

WHEREAS, the documents below specified have been filed with the District and the members of the Governing Body, with the aid of its staff, shall review said documents;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

Section 1.

The below-enumerated documents be and are hereby approved, and the President of the Governing Body or designee, is hereby authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the Secretary of the Governing Body is hereby authorized and directed to attest to such official's signature:

- (a) a site lease, by and between the District and the Corporation, pursuant to which the District will lease certain real property (the "Property") to the Corporation; and
- (b) a lease agreement, by and between the Corporation, as lessor, and the District, as lessee (the "Lease Agreement"), pursuant to which the Corporation will lease the Property back to the District, so long as the term of the Lease Agreement does not exceed 20 years, the total amount of the Lease Agreement does not exceed \$1,415,000.00 and the interest rate payable with respect to the Lease Agreement shall be determined according to the formula set forth on Exhibit C to the Lease Agreement.

Section 2.

The President of the Board, the Secretary of the Board and all other appropriate officials of the District are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the financing herein authorized.

Section 3.

This Resolution shall take effect upon its adoption by this Board.

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted by the Governing Board of the Pajaro Valley Unified School District at a meeting thereof on the 9th of December, 2009, by the following vote of the members thereof:

AYES:

NOES:

ABSENT:

By _____

Print Name _____

Title _____

Attest:

By _____
Secretary of the Board



**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
FINANCING CORPORATION
MISSION STATEMENT**

The Mission of the Pajaro Valley Unified School District is to educate and to support learners in reaching their highest potential. We prepare students to pursue successful futures and to make positive contributions to the community and global society.

December 9, 2009

**PAJARO VALLEY UNIFIED SCHOOL DISTRICT
FINANCING CORPORATION**

SPECIAL BOARD OF DIRECTORS MEETING

PUBLIC SESSION – 7:00 p.m.
ANN SOLDO ELEMENTARY SCHOOL
MULTI PURPOSE ROOM
1140 Mensaco Drive
Watsonville, CA 95076

NOTICE TO THE PUBLIC: PURSUANT TO SB 343, BOARD PACKET DOCUMENTS ARE AVAILABLE FOR YOUR REVIEW AT THE FOLLOWING LOCATIONS:

- Superintendent's Office: 294 Green Valley Road, Watsonville, CA (4th Floor)

Notice to the Audience on Public Comment

Members of the audience are welcome to address the Board of Directors on all items not listed on this agenda. Such comments are welcome at the "Visitor Non-Agenda Items".

Members of the audience will also have the opportunity to address the Board of Directors during the Board's consideration of each item on the agenda.

Individual speakers will be allowed three minutes (unless otherwise announced by the Board President) to address the Board of Directors on each agenda item. **You must submit this card prior to the discussion of the agenda item you wish to speak to; once an item has begun, cards will not be accepted for that item.** For the record, please state your name at the beginning of your statement. The Board of Directors shall limit the total time for public input on each agenda item to 20 minutes. With Board of Directors consent, the President may increase or decrease the time allowed for public presentation, depending on the topic and the number of persons wishing to be heard. The President may take a poll of speakers for or against a particular issue and may ask that additional persons speak only if they have something new to add.

Note: Time allotment for each item is for the report portion only; it is not an anticipation of the total time for the discussion of the item.

We ask that you please turn off your cell phones and pagers when you are in the boardroom.

1. OPEN SESSION

Immediately following the recess of the regular meeting of the Pajaro Valley Unified School District Board of Trustees.

2. REPORT ON THE NUMBER OF DIRECTORS PRESENT

Report on the number of Directors present in person in order to determine the existence of a quorum.

3. ACTION

3.1 DESIGNATION OF CORPORATION OFFICERS

The Directors shall ratify the appointment of officers to hold office until the next organizational meeting of the Corporation. The President of the Board of Trustees shall act as President of the non-profit corporation. The clerk of the Board of Trustees shall be Vice-President. The Secretary of the Board of Trustees shall act as Secretary of the Corporation. The remaining members shall act as Directors.

Vote: Ayes _____ Noes _____ Absent _____

3.2 RESOLUTION 09-10-0101 AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN LEASE FINANCING DOCUMENTS AND AUTHORIZING CERTAIN ACTIONS WITH RESPECT THERETO.

Vote: Ayes _____ Noes _____ Absent _____

4. SUGGESTIONS AND COMMENTS BY BOARD MEMBERS

5. COMMUNICATIONS FROM THE PUBLIC

6. NEXT REGULAR MEETING OF THE BOARD OF DIRECTORS NO LATER THAN DECEMBER 31st, 2010.

7. ADJOURNMENT

PLEASE RECORD, AND
AFTER RECORDATION RETURN TO:

Kirsi Hansen
Zions First National Bank
One South Main Street, 17th Floor
Salt Lake City, UT 84133

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX
PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE.
THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF
THE CALIFORNIA GOVERNMENT CODE.

\$1,415,000.00

FIXED RATE REAL PROPERTY LEASE/PURCHASE AGREEMENT

Dated as of

January 4, 2010

by and between the

PAJARO VALLEY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION, as Lessor

and the

PAJARO VALLEY UNIFIED SCHOOL DISTRICT, as Lessee

Bank Qualified

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LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease Agreement"), dated as of January 4, 2010, is by and between the PAJARO VALLEY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION, a nonprofit, public benefit corporation organized and existing under the laws of the State of California, as lessor (the "Corporation"), and the PAJARO VALLEY UNIFIED SCHOOL DISTRICT, a district duly organized and existing under the laws of the State of California, as lessee (the "District");

WITNESSETH:

WHEREAS, the Corporation proposes to lease the real property more particularly described in Exhibit B attached hereto and made a part hereof (the "Property") to the District pursuant to this Lease Agreement and to assign its right to receive lease payments under this Lease Agreement (the "Lease Payments"), its right to enforce payment of the Lease Payments and otherwise to enforce its interest and rights under this Lease Agreement in the event of a default hereunder by the District, to Zions First National Bank, as assignee (the "Assignee"), pursuant to that certain Assignment Agreement, dated as of, by and between the Corporation and the Assignee, attached hereto as Exhibit G; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Lease Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease Agreement;

WHEREAS, the proceeds of the assignment of this Lease Agreement, together with other available moneys, will be applied by the District to finance the costs of the acquisition, construction, installation and equipping of certain capital improvements, including equipment, for use by the District (the "Project");

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I DEFINITIONS AND EXHIBITS

Section 1.1. Definitions.

The terms defined in Exhibit A attached hereto and by this reference incorporated herein, as used and capitalized herein, shall, for all purposes of this Lease Agreement, have the meanings ascribed to them in said Exhibit A unless the context clearly requires some other meaning.

ARTICLE II REPRESENTATIONS, COVENANTS AND WARRANTIES

Section 2.1. Representations, Covenants and Warranties of the District.

The District represents, covenants and warrants to the Corporation as follows:

(a) *Due Organization and Existence.* The District is a public agency, duly organized and existing under the laws of the State.

(b) *Authorization, Enforceability.* The laws of the State authorize the District to enter into the Site Lease and this Lease Agreement and to enter into the transactions contemplated by and to carry out its obligations under all of the aforesaid agreements, the District has duly authorized and executed all of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the District, enforceable against the District in accordance with their respective terms.

All procedures and requirements, including any legal bidding requirements, have been met by the District prior to the execution of this Lease Agreement in order to insure the enforceability of this Lease Agreement and all Lease Payments and other payment obligations will be paid out of funds legally available for such purpose.

The governing body of the District has complied with all applicable open public meeting and notice laws and requirements with respect to the meeting at which the District's execution of this Lease Agreement was authorized, as evidenced by the Resolution attached hereto as Exhibit H.

(c) *No Conflicts or Default; Other Liens or Encumbrances.* Neither the execution and delivery of the Site Lease or this Lease Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby (i) conflicts with or results in a breach of the terms, conditions, provisions, or restrictions of any existing law, or court or administrative decree, order, or regulation, or agreement or instrument to which the District is now a party or by which the District is bound, **including without limitation any agreement or instrument pertaining to any bond, note, lease, certificate of participation, debt instrument, or any other obligation of the District** (any such bond, note, lease, certificate of participation, debt instrument, and other obligation being referred to herein as an "Obligation Instrument"), (ii) constitutes a default under any of the foregoing, or (iii) results in the creation or imposition of any pledge, lien, charge or encumbrance whatsoever upon any of the property or assets of the District, or upon the Property except for Permitted Encumbrances.

By way of example, and not to be construed as a limitation on the representations set forth in the immediately preceding paragraph:

- (A) no portion of the Property is pledged to secure any Obligation Instrument, and
- (B) the interests of the Corporation in the Property hereunder do not violate the terms, conditions or provisions of any restriction or revenue pledge in any agreement or instrument pertaining to any Obligation Instrument.

If any Obligation Instrument existing on the date of execution of this Lease Agreement creates any pledge, lien, charge or encumbrance on any revenues, property or assets associated with the Property and/or the Property that is higher in priority to the Corporation's interests therein under this Lease Agreement, the Corporation hereby subordinates its interests therein, but only to the extent required pursuant to such existing Obligation Instrument.

(d) *Execution and Delivery.* The District has duly authorized and executed this Lease Agreement in accordance with the laws of the State.

(e) *Essential Nature of Property.* The Property is essential to the District's operations.

(f) *Use of the Property.* During the term of this Lease Agreement, the Property will be used by the District only for the purpose of performing one or more governmental or proprietary functions of the District consistent with the permissible scope of the District's authority.

(g) *No Adverse Litigation.* There are no legal or governmental proceedings or litigation pending, or to the best knowledge of the District threatened or contemplated (or any basis therefore) wherein an unfavorable decision, ruling, or finding might adversely affect the transaction contemplated in or the validity of this Lease Agreement.

(h) *No Defaults.* The District has never non-appropriated or defaulted under any of its payment or performance obligations or covenants, either under any municipal lease of the same general nature as this Lease Agreement, or under any of its bonds, notes, or other obligations of indebtedness for which its revenues or general credit are pledged.

(i) *No Legal or Environmental Violation.* The Property is not, and at all times during the Term of this Lease Agreement will not be in violation of any federal, state or local law, statute, ordinance or regulation, including without limitation, any Environmental Law, to the best of the District's knowledge. Neither the District nor, to the best of District's knowledge, any third party, has used, generated, manufactured, stored or disposed of on, under or about the Property or transported to or from the Property any Hazardous Materials.

In the event that Hazardous Materials are discovered, and must be removed or remediated, and to the extent permitted by applicable law, the District hereby agrees to indemnify and hold harmless the Corporation, its Assignees, and their respective directors, officers, shareholders, employees, and agents, and successors to the Corporation's interest in the chain of title to the Property, and their directors, officers, shareholders, employees, and agents, from and against any and all loss, claim, damages, expense or liability, including reasonable attorneys' fees and other litigation expenses, to the full extent of such action as attributable, directly or indirectly, to:

- (i) the presence or use of, generation, storage, release, threatened release, or disposal of Hazardous Materials by any person on, in or under the Property;
- (ii) use of the Property or any part thereof as a dump site, permanent or temporary storage site or transfer station for any Hazardous Materials;

- (iii) violation of any Environmental Law affecting the Property or any part thereof or any activity conducted on any part of the Property; and
- (iv) any action or proceeding before any court, quasi-judicial body or administrative agency relating to the enforcement of any Environmental Law affecting the Property or any part thereof or any activity conducted on any part of the Property;

including, without limitation, all foreseeable and all unforeseeable consequential damages, directly or indirectly arising out of the use, generation, manufacture, storage, or disposal of Hazardous Materials, by the District or any prior owner or operator of the Property, including, without limitation, the cost of any required and necessary repair, cleanup, remediation, or detoxification and the preparation of any disclosure, or other required plans, whether such action is required or necessary prior to or following transfer of title to the Property.

(j) *General Tax and Arbitrage Representations and Covenants.*

- (i) The certifications and representations made by the District in this Lease Agreement are intended, among other purposes, to be a certificate permitted in Section 1.148-2(b) of the Treasury Regulations promulgated pursuant to Section 148 of the Code (the "Regulations"), to establish the reasonable expectations of the District at the time of the execution of this Lease Agreement made on the basis of the facts, estimates and circumstances in existence on the date hereof. The District further certifies and covenants as follows:

- (A) The District has not been notified of any disqualification or proposed disqualification of it by the Commissioner of the Internal Revenue Service as an issuer which may certify bond issues.
- (B) To the best knowledge and belief of the District, there are no facts, estimates or circumstances that would materially change the conclusions, certifications or representations set forth in this Lease Agreement, and the expectations herein set forth are reasonable.
- (C) The Scheduled Term of this Lease Agreement does not exceed the useful life of the Property, and the weighted average term of this Lease Agreement does not exceed the weighted average useful life of the Property.
- (D) Each advance of funds by the Corporation or its Assignee to finance Property under this Lease Agreement (each an "Advance") will occur only when and to the extent that the District has reasonably determined and identified the nature, need, and cost of each item of Property pertaining to such Advance.
- (E) No use will be made of the proceeds of this Lease Agreement or any such Advance, or any funds or accounts of the District which may be deemed to be proceeds of this Lease Agreement or any

such Advance, which use, if it had been reasonably expected on the date of the execution of this Lease Agreement or of any such Advance, would have caused this Lease Agreement or any such Advance to be classified as an "arbitrage bond" within the meaning of Section 148 of the Code.

- (F) The District will at all times comply with the rebate requirements of Section 148(f) of the Code as they pertain to this Lease Agreement, to the extent applicable.
- (G) In order to preserve the status of this Lease Agreement and the Advances as other than "private activity bonds" as described in Sections 103(b)(1) and 141 of the Code, as long as this Lease Agreement and any such Advances are outstanding and unpaid:
 - (I) none of the proceeds from this Lease Agreement or the Advances or any facilities or assets financed therewith shall be used for any "private business use" as that term is used in Section 141(b) of the Code and defined in Section 141(b)(6) of the Code;
 - (II) the District will not allow any such "private business use" to be made of the proceeds of this Lease Agreement or the Advances or any facilities or assets financed therewith; and
 - (III) none of the Advances or Lease Payments due hereunder shall be secured in whole or in part, directly or indirectly, by any interest in any property used in any such "private business use" or by payments in respect of such property, and shall not be derived from payments in respect of such property.
- (H) The District will not take any action, or omit to take any action, which action or omission would cause the interest component of the Lease Payments to be ineligible for the exclusion from gross income as provided in Section 103 of the Code.
- (I) The District is a "governmental unit" within the meaning of Section 141(b)(6) of the Code.
- (J) The obligations of the District under this Lease Agreement are not federally guaranteed within the meaning of Section 149(b) of the Code.
- (K) Refunding Representations. This Lease and all of the Advances to be made pursuant hereto will not be used to reimburse the Lessee for any expenditures incurred prior to the date of this Lease, but will be used to refinance and refund the prior lease or leases (the "Prior Leases") set forth on the attached Schedule "A" (the "Refunding Schedule"), pursuant to which the Lessee

has previously leased that part of the Leased Property described on the Refunding Schedule (the "Prior Property"):

(a) All of the proceeds of each of the Prior Leases were used exclusively to finance the acquisition and/or construction of the respective items of Prior Property associated with that Prior Lease as set forth on the Refunding Schedule, and for no other purpose (including without limitation the refunding or refinancing of any obligation of the Lessee, or to reimburse the Lessee for any expenditures made prior to the date of such Prior Lease).

(b) That portion of advances to be made under this Lease that is to be used to refinance and refund each Prior Lease shall be drawn hereunder on the same day as such Prior Lease is to be prepaid, and shall be used on a dollar-per-dollar basis on such day to pay in full, no later than ninety (90) days after the date of this Lease, all of the outstanding principal of and accrued interest on such Prior Lease, with no period of time during which such advance can or will be invested.

(c) All representations, warranties, certifications, and covenants made by the Lessee in each of the Prior Leases, and in this Lease, regarding the:

(i) intended use of the respective items of Prior Property;

(ii) non-private business use of the respective items of Prior Property and proceeds of the respective Prior Lease;

(iii) non-arbitrage bond status of the respective Prior Lease;

(iv) qualification for exemption from Federal income taxation of the interest component of rental payments made under the respective Prior Lease; and

(v) qualification of the respective Prior Lease and the interest component of all rental payments made thereunder as a "qualified tax-exempt obligation" under Section 265(b)(3) of the Code;

are now and have been at all times from and after the acquisition and/or construction of each item of the Prior Property and the execution of each respective Prior Lease, complete, true, and accurate, and are hereby restated by the Lessee in their entirety as if fully set forth in this place.

(d) Either there is no rebatable arbitrage pertaining to any of the Prior Leases within the meaning of, and as described in, Section

148 of the Code and the Treasury Regulations promulgated in connection therewith, or all such rebatable arbitrage has been or is being paid on the date hereof to the United States of America in the manner and in the amounts required under said Code Section and Regulations.

Either (check applicable box):

- ☐ (I) No Reimbursement for Expenditures Incurred Prior to 60 Days Before the Date the Authorizing Resolution Was Adopted. No proceeds of this Lease Agreement and the Advances to be made pursuant hereto will be used to reimburse the District for any expenditures incurred prior to the date sixty (60) days before the date the Governing Body adopted the Authorizing Resolution.

- or -

- ☐ (II) Prior Expenditures Will be Reimbursed; But No Reimbursement Resolution Was Adopted. If proceeds of this Lease Agreement and the Advances to be made pursuant hereto are to be used to reimburse the District for expenditures incurred with respect to the Property prior to the date sixty (60) days before the date the Governing Body adopted the Authorizing Resolution, then proceeds of this Lease Agreement and the Advances made hereunder will be used to reimburse only those expenditures that are described below (collectively, "Reimbursable Expenditures"):

- (a) Subsequent Expenditures: all expenditures incurred with respect to the Property on or after the date the Authorizing Resolution was adopted; plus
- (b) Prior Expenditures: the following types of expenditures incurred with respect to the Property prior to the date the Authorizing Resolution was adopted:
- (1) capital expenditures made no earlier than sixty (60) days before the Authorizing Resolution was adopted; plus
 - (2) "preliminary expenditures" as described in Section 1.150-2(f)(2) of the Regulations, not in excess of twenty percent (20%) of the aggregate "issue price" (as that term is defined in Section 1.148-1(b) of the Regulations) of this Lease Agreement for architectural, engineering, surveying, soil testing, reimbursement bond issuance, and similar costs that are incurred prior to the commencement of acquisition and/or construction of the Property, other than land acquisition, site preparation, and similar costs incident to commencement of construction; plus

- (3) the lesser of \$100,000 or five percent (5%) of the proceeds of this Lease Agreement.

- or -

- ☐ (III) Reimbursement Resolution Has Been Previously Adopted for Reimbursement of Prior Expenditures. The District has previously adopted the Reimbursement Resolution attached hereto as Exhibit K (the "Reimbursement Resolution") authorizing the reimbursement of "Reimbursable Expenditures", which are defined in the Reimbursement Resolution using the same definition of such term as in (II) above, and this Lease Agreement and the Advances to be made pursuant hereto will be used to reimburse only those expenditures pertaining to the Property that qualify as "Reimbursable Expenditures" as so defined.

Any reimbursement pursuant to (I), (II), or (III) above of expenditures incurred prior to the date the Authorizing Resolution was adopted shall be evidenced by an allocation made by or on behalf of the District in writing:

- (1) not later than eighteen (18) months after the later of:
- (x) the date the original expenditure is paid; or
 - (y) the date the Property is "placed in service" (as that term is defined in Section 1.150-2(c) of the Regulations) or abandoned;
- (2) but in no event more than three (3) years after the original expenditure is paid.
- (L) In compliance with Section 149(e) of the Code relating to information reporting, the District will file or cause to be filed with the Internal Revenue Service Center, Ogden, UT 84201, within fifteen (15) days from the execution of this Lease Agreement, IRS Form 8038-G or 8038-GC, as appropriate, reflecting the total aggregate amount of Advances that can be made pursuant to this Lease Agreement.
- (M) None of the proceeds of this Lease Agreement or the Advances to be made hereunder will be used directly or indirectly to replace funds of the District used directly or indirectly to acquire obligations at a yield materially higher than the yield on this Lease Agreement or otherwise invested in any manner. No portion of the Advances will be made for the purpose of investing such portion at a materially higher yield than the yield on this Lease Agreement.

- (N) Inasmuch as Advances will be made under this Lease Agreement only when and to the extent the District reasonably determines, identifies and experiences the need therefore, and will remain outstanding and unpaid only until such time as the District has moneys available to repay the same, the District reasonably expects that (I) the Advances will not be made sooner than necessary; (II) no proceeds from the Advances will be invested at a yield higher than the yield on this Lease Agreement; and (III) the Advances and this Lease Agreement will not remain outstanding and unpaid longer than necessary.
- (O) The District will either (i) spend all of the moneys advanced pursuant to this Lease Agreement immediately upon receipt thereof, without investment, on the portion of the Property that is to be financed thereby; or (ii) invest such moneys at the highest yield allowable and practicable under the circumstances until they are to be spent on the portion of the Property that is to be financed thereby, and track, keep records of, and pay to the United States of America, all rebatable arbitrage pertaining thereto, at the times, in the amounts, in the manner, and to the extent required under Section 148(f) of the Code and the Treasury Regulations promulgated in connection therewith. At least five percent (5%) of the total amount of moneys that are expected to be advanced pursuant to this Lease Agreement are reasonably expected to have been expended on the Property within six (6) months from the date of this Lease Agreement. All moneys to be advanced pursuant to this Lease Agreement are reasonably expected to have been expended on the Property no later than the earlier of: (I) the date twelve (12) months from the date such moneys are advanced; and (II) the date three (3) years from the date of this Lease Agreement.
- (P) This Lease Agreement and the Advances to be made hereunder are not and will not be part of a transaction or series of transactions that attempts to circumvent the provisions of Section 148 of the Code and the regulations promulgated in connection therewith (I) enabling the District to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, and (II) overburdening the tax-exempt bond market, as those terms are used in Section 1.148-10(a)(2) of the Regulations.
- (Q) To the best of the knowledge, information and belief of the District, the above expectations are reasonable. On the basis of the foregoing, it is not expected that the proceeds of this Lease Agreement and the Advances to be made hereunder will be used in a manner that would cause this Lease Agreement or such Advances to be "arbitrage bonds" under Section 148 of the Code and the regulations promulgated there under, and to the best of the knowledge, information and belief of the District, there are

no other facts, estimates or circumstances that would materially change the foregoing conclusions.

- (ii) Arbitrage Rebate Under Section 148(f) of the Code. With respect to the arbitrage rebate requirements of Section 148(f) of the Code, either (check applicable box):

- ☐ (A) District Qualifies for Small Issuer Exemption from Arbitrage Rebate. The District hereby certifies and represents that it qualifies for the exception contained in Section 148(f)(4)(D) of the Code from the requirement to rebate arbitrage earnings from investment of proceeds of the Advances made under this Lease Agreement (the "Rebate Exemption") as follows:

- (1) The District has general taxing powers.
- (2) Neither this Lease Agreement, any Advances to be made hereunder, nor any portion thereof are private activity bonds as defined in Section 141 of the Code ("Private Activity Bonds").
- (3) Ninety-five percent (95%) or more of the net proceeds of the Advances to be made hereunder are to be used for local government activities of the District (or of a governmental unit, the jurisdiction of which is entirely within the jurisdiction of the District).
- (4) Neither the District nor any aggregated issuer has issued or is reasonably expected to issue any tax-exempt obligations other than Private Activity Bonds (as those terms are used in Section 148(f)(4)(D) of the Code) during the current calendar year, including the Advances to be made hereunder, which in the aggregate would exceed \$5,000,000 in face amount, or \$15,000,000 in face amount for such portions, if any, of any tax-exempt obligations of the District and any aggregated issuer as are attributable to construction of public school facilities within the meaning of Section 148(f)(4)(D)(vii) of the Code.

For purposes of this Section, "aggregated issuer" means any entity which (a) issues obligations on behalf of the District, (b) derives its issuing authority from the District, or (c) is subject to substantial control by the District.

The District hereby certifies and represents that it has not created, does not intend to create and does not expect to benefit from any entity formed or availed of to avoid the purposes of Section 148(f)(4)(D)(i)(IV) of the Code.

Accordingly, the District will qualify for the Rebate Exemption granted to governmental units issuing less than \$5,000,000 under Section 148(f)(4)(D) of the Code (\$15,000,000 for the financing of public school facilities construction as described above), and the District shall be treated as meeting the requirements of Paragraphs (2) and (3) of Section

148(f) of the Code relating to the required rebate of arbitrage earnings to the United States with respect to this Lease Agreement and the Advances to be made hereunder.

- or -

- ☐ (B) District Will Keep Records of and Will Rebate Arbitrage. The District does not qualify for the small issuer Rebate Exemption described above, and the District hereby certifies and covenants that it will account for, keep the appropriate records of, and pay to the United States, the rebate amount, if any, earned from the investment of gross proceeds of this Lease Agreement and the Advances to be made hereunder, at the times, in the amounts, and in the manner prescribed in Section 148(f) of the Code and the applicable Regulations promulgated with respect thereto.

(k) *Small Issuer Exemption from Bank Nondeductibility Restriction.* Based on the following representations of the District, the District hereby designates this Lease Agreement and the interest components of the Lease Payments hereunder as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code: (i) this Lease Agreement and the Lease Payments hereunder are not private activity bonds within the meaning of Section 141 of the Code; (ii) the District reasonably anticipates that it, together with all "aggregated issuers," will not issue during the current calendar year obligations (other than those obligations described in clause (iii) below) the interest on which is excluded from gross income for federal income tax purposes under Section 103 of the code which, when aggregated with all obligations described in clause (ii) above, will exceed an aggregate principal amount of \$30,000,000; (iii) and notwithstanding clause (ii) above, the District and its aggregated issuers may have issued in the current calendar year and may continue to issue during the remainder of the current calendar year private activity bonds other than qualified 501(c)(3) bonds as defined in Section 145 of the Code. For purposes of this subsection, "aggregated issuer" means any entity which (a) issues obligations on behalf of the District, (b) derives its issuing authority from the District, or (c) is subject to substantial control by the District. The District hereby certifies and represents that it has not created, does not intend to create and does not expect to benefit from any entity formed or availed of to avoid the purposes of Section 265(b)(3)(C) or (D) of the Code.

(l) *No Withholding.* Notwithstanding any dispute between the Corporation or its Assignee and the District, including a dispute as to the failure of any portion of the Property in use by or possession of the District to perform the task for which it is leased, the District shall make all Lease Payments when due and shall not withhold any Lease Payments pending the final resolution of such dispute.

(m) *Offset.* Subject to the provisions of Section 6.3 hereof, Lease Payments or other sums payable by the District pursuant to this Lease Agreement shall not be subject to offset or counterclaim and the District shall not be entitled to any credit against such Lease Payments or other sums by reason of any dispute between the District and the Corporation or its Assignee, any vendor or manufacturer of any part of the Property, or any other person.

(n) *Annual Financial Information.* During the Term of this Lease Agreement, the District covenants and agrees to provide the Corporation and its Assignee, upon request, as soon as practicable when they are available: (i) a copy of the District's final annual budget for each fiscal year; (ii) a copy of the District's most recent financial statements; and (iii) any other financial reports the Corporation or its Assignee may request.

Section 2.2. Representations, Covenants and Warranties of Corporation.

The Corporation represents, covenants and warrants to the District as follows:

(a) *Due Organization and Existence.* The Corporation is a nonprofit, public benefit corporation, duly organized and existing under and by virtue of the laws of the State; has power to enter into the Site Lease, this Lease Agreement and the Assignment Agreement; is possessed of full power to own and hold, improve and equip real and personal property and to lease and sell the same; has duly authorized the execution and delivery of all of the aforesaid agreements and such agreements constitute the legal, valid and binding agreements of the Corporation, enforceable against the Corporation in accordance with their respective terms.

(b) *No Encumbrances.* The Corporation will not pledge the Lease Payments or other amounts derived from the Property and from its other rights under this Lease Agreement and will not mortgage or encumber the Property, except as provided under the terms of this Lease Agreement.

(c) *No Violations.* Neither the execution and delivery of the Site Lease, this Lease Agreement or the Assignment Agreement, the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation, or upon the Property, except Permitted Encumbrances.

(d) *Execution and Delivery.* The Corporation has duly authorized and executed this Lease Agreement in accordance with the laws of the State.

**ARTICLE III
DEPOSIT OF MONEYS**

Section 3.1. Deposit of Moneys.

On the date of the Lease Agreement, the Corporation shall cause the Assignee to transfer the proceeds of assignment of this Lease Agreement to the District for the payment or reimbursement for the payment of the Project.

**ARTICLE IV
AGREEMENT TO LEASE; TERM OF THIS LEASE AGREEMENT; LEASE
PAYMENTS**

Section 4.1. Lease.

The Corporation hereby leases the Property to the District, and the District hereby leases the Property from the Corporation, upon the terms and conditions set forth in this Lease Agreement. The interest in real property conveyed by this Lease Agreement is hereby accepted by the undersigned officer on behalf of the District pursuant to authority conferred by resolution of the board of Education of the District and the District consents to recordation thereof by its duly authorized officer.

Section 4.2. Term of Agreement.

The Term of the Lease Agreement shall commence on the date hereof, and shall end on January 15, 2030, unless such term is extended as hereinafter provided. If on, the Lease Payments payable hereunder shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until there has been deposited with the Assignee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event shall the Term of the Lease Agreement extend beyond ten years after the Maturity Date.

Section 4.3. Possession.

The District hereby agrees to accept and take possession of the Property on or prior to the date hereof. The first Lease Payment shall be due on July 15, 2010.

Section 4.4. Lease Payments.

(a) *Obligation to Pay.* Subject to the provisions of Articles VI and X hereof, the District agrees to pay to the Corporation, its successors and assigns, as rental for the beneficial use and occupancy of the Property during each Rental Period, the Lease Payments (denominated into components of principal and interest) in the respective amounts specified in Exhibit C hereto, to be due and payable on the respective Lease Payment Dates specified in Exhibit C hereto. Notwithstanding any dispute between the District, the Corporation or any other party, the District will make all Lease Payments when due, without withholding any portion of such rent, pending final resolution of such dispute by mutual agreement between the parties thereto or by a court of competent jurisdiction.

(b) *Effect of Prepayment.* In the event that the District prepays all remaining Lease Payments in full pursuant to Article X hereof, the District's obligations under this Lease Agreement shall thereupon cease and terminate including, but not limited to, the District's obligation to pay Lease Payments under this Section 4.4.

(c) *Rate on Overdue Payments.* In the event the District should fail to make any of the payments required in this Section 4.4, the payment in default shall continue as an obligation of the District until the amount in default shall have been fully paid, and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date of such default to the date of payment at the rate equal to the interest rate payable with respect to the Lease Payments.

(d) *Fair Rental Value.* The Lease Payments for the Property for each Rental Period shall constitute the total rental for the Property for each such Rental Period and shall be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Property during each Rental Period. The parties hereto have agreed and determined that the total Lease Payments for the Property do not exceed the fair rental value of the Property. In making such determination, consideration has been given to the obligations of the parties under this Lease Agreement, the uses and purposes which may be served by the Property, the total amounts which have been expended on the Property, the value of the Property and the benefits there from which will accrue to the District and the general public.

(e) *Source of Payments; Budget and Appropriation.* Lease Payments shall be payable from any source of available funds of the District, subject to the provisions of Articles VI and X hereof.

The District covenants to take such action as may be necessary to include all Lease Payments due hereunder in each of its budgets during the Term of the Lease Agreement and to make the necessary annual appropriations for all such Lease Payments. The covenants on the part of the District

herein contained shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in this Lease Agreement agreed to be carried out and performed by the District.

(f) **Assignment.** The District understands and agrees that all Lease Payments have been assigned by the Corporation to the Assignee pursuant to the Assignment Agreement, and the District hereby assents to such assignment. The Corporation hereby directs the District, and the District hereby agrees to pay to the Assignee at the following address, all payments payable by the District pursuant to this Section 4.4 and all amounts payable by the District pursuant to Article X hereof:

By check to:

Zions First National Bank
Public Financial Services
One South Main Street, 17th Floor
Salt Lake City, UT 84133
Attention: Mark Tsuyuki

or by wire to:

Such account as shall be provided to the District by the Assignee upon request.

In addition, all references herein to the Corporation, when the context implies the Assignee, shall be assumed to also refer to the Assignee, even if not specifically so indicated.

Section 4.5. Quiet Enjoyment.

During the Term of the Lease Agreement, the Corporation shall provide the District with quiet use and enjoyment of the Property and the District shall, during such Term, peaceably and quietly have and hold and enjoy the Property without suit, trouble or hindrance from the Corporation, except as expressly set forth in this Lease Agreement. The Corporation will, at the request of the District and at the District's cost, join in any legal action in which the District asserts its right to such possession and enjoyment to the extent the Corporation may lawfully do so. Notwithstanding the foregoing, the Corporation shall have the right to inspect the Property as provided in Section 7.2 hereof.

Section 4.6. Title.

At all times during the Term of the Site Lease and subject to all the terms and provisions thereof, the District shall hold fee title to the Property. Upon termination of this Lease Agreement, other than termination hereof pursuant to Section 9.2 (b), all right, title and interest of the Corporation herein under in the leasehold estates created under the Site Lease and this Lease Agreement shall terminate.

If the District prepays the Lease Payments in full pursuant to Article X hereof, or pays all Lease Payments during the Term of the Lease Agreement as the same become due and payable, all right, title and interest of the Corporation in and to the Property shall be transferred to and vested in the District. The Corporation agrees to take any and all steps and execute and record any and all documents reasonably required by the District to consummate any such transfer of title.

Section 4.7. Additional Payments.

In addition to the Lease Payments, the District shall pay when due all costs and expenses incurred by the District and the Corporation to comply with the provisions of this Lease Agreement, or otherwise arising from the leasing of the Property, compensation and, to the extent permitted under applicable law, indemnification due to the Corporation and the Assignee, and all costs and expenses of auditors, engineers, attorneys and accountants.

ARTICLE V
MAINTENANCE; TAXES; INSURANCE; USE LIMITATIONS; AND OTHER
MATTERS

Section 5.1. Maintenance, Utilities, Taxes and Assessments.

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the District and the District shall pay, or otherwise arrange for the payment of, all utility services supplied to the Property which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the District or any assignee or sublessee thereof. In exchange for the Lease Payments herein provided, the Corporation agrees to provide only the Property, as hereinbefore more specifically set forth. The District waives the benefits of subsections 1 and 2 of section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the District under the terms of this Lease Agreement.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Corporation or the District affecting the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal there from unless the Corporation shall notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property or any part thereof will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation.

Section 5.2. Modification of Property.

The District shall, at its own expense, have the right to remodel the Property or to make additions, modifications and improvements to the Property. All additions, modifications and improvements to the Property, but not any additional buildings or improvements, shall thereafter comprise part of the Property and be subject to the provisions of this Lease Agreement. Such additions, modifications and improvements shall not in any way damage the Property, substantially alter its nature, cause the interest component of Lease Payments to be subject to federal income taxes or cause the Property to be used for purposes other than those authorized under the provisions of State and federal law; and the Property, upon

completion of any additions, modifications and improvements made thereto pursuant to this Section 5.2, shall be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements. The District will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any remodeling, additions, modifications, improvements, repairs, renewals or replacements made by the District pursuant to this Section 5.2; provided that if any such lien is established and the District shall first notify the Corporation of the District's intention to do so, the District may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal there from and shall provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Corporation. The Corporation will cooperate fully in any such contest, upon the request and at the expense of the District.

Section 5.3. Public Liability and Property Damage Insurance.

The District shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive general insurance policy or policies in protection of the Corporation, the District and the Assignee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through a joint exercise of powers authority created for such purpose. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$150,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Deductibles, if any, shall be in such amounts as may reasonably be obtained by a district in California of comparable size to the District, insuring risks comparable to those that are the subject of said insurance coverage, but in no circumstance be in excess of amounts that would be reasonable in the exercise of prudence and good judgment by the District. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

Section 5.4. Fire and Extended Coverage Insurance.

The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting part of the Property by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance, with the Corporation and the Assignee named as loss payees. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to one hundred percent (100%) of the replacement cost of such structures. Such insurance may be subject to deductible clauses of not to exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The Net Proceeds of such insurance shall be applied as provided in Sections 5.7 and 6.2 hereof.

Section 5.5. Rental Interruption Insurance.

To the extent such coverage is available, the District shall procure and maintain, or cause to be maintained, throughout the Term of the Lease Agreement rental interruption insurance to cover loss, total or partial, to the Corporation of the Lease Payments because of an abatement or rental due to loss of use of any part of the Property during the Term of the Lease Agreement as a result of any of the hazards covered in the insurance required by Section 5.4 hereof, with the Corporation and the Assignee named as additional insureds, in an amount at least equal to the maximum amount of Lease Payments payable in any one year period in the case of equipment, and otherwise in any two year period. Such insurance may be carried in conjunction with, and may be subject to the same provisions as, the insurance required under Section 5.4. The District hereby assigns to the Corporation all right of the District, if any, to collect and receive Net Proceeds under any of said policies, which right has been assigned by the Corporation to the Assignee pursuant to the Assignment Agreement. The Net Proceeds of such insurance shall be paid to the Assignee and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Section 5.6. Title Insurance.

(a) The District shall provide, at its own expense, on the effective date of this Lease Agreement, a CLTA title insurance policy covering, and in the amount of not less than the principal amount of this Lease Agreement, insuring the District's leasehold estate in the Property, subject only to Permitted Encumbrances.

(b) The Net Proceeds of such title insurance shall be applied as provided in Section 6.2(a) hereof.

Section 5.7. Form of Policies; Self-Insurance.

(a) *Form of Policies.* The District shall acquire the insurance policies required hereunder at its expense from carriers acceptable to the Corporation. The policy or policies required by Section 5.4 hereof shall contain a loss payable endorsement in favor of the Corporation. The policies required hereby shall provide that they may not be canceled or materially altered without at least 30 days prior written notice to the Corporation. The District shall deliver to the Corporation copies or other evidence satisfactory to the Corporation of each insurance policy and each renewal thereof. Failure by the Corporation to request evidence of such insurance policies or renewals, or otherwise to verify the existence of such insurance, shall not constitute a waiver of the requirements hereof. The District shall make claim for, receive payment of and execute and endorse all documents, checks or drafts received in payment for loss or damage under said insurance policies.

(b) *Self Insurance.* The District may only self insure pursuant to Section 5.4 hereof if and to the extent such self-insurance method or plan of protection shall afford reasonable protection to the Corporation in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other school districts in the State other than the District. Insurance provided through a California joint powers authority of which the District is a member of with which the District contracts for insurance shall be deemed to be self-insurance for purposes hereof. Any self-insurance maintained by the District pursuant to this Article V shall comply with the following terms:

- (i) The self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; the adequacy of such fund shall be evaluated on an annual basis by an independent insurance consultant; and any deficiencies in any self-insured claims reserve fund shall be

remedied in accordance with the recommendation of such independent insurance consultant;

(ii) [Reserved]

(iii) In the event that the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by an independent insurance consultant, shall be maintained.

Section 5.8. Advances.

If the District shall fail to perform any of its obligations under this Article V, the Corporation may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the District shall be obligated to repay all such advances as soon as possible, with interest at the rate equal to the interest rate payable with respect to the Lease Payments, from the date of the advance to the date of repayment.

Section 5.9. Installation of District's Equipment.

The District may, at any time and from time to time in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon any portion of the Property. All such items shall remain the sole property of the District in which neither the Corporation nor the Assignee shall have any interest and may be modified or removed by the District at any time provided that the District shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in this Lease Agreement shall prevent the District from purchasing or leasing items to be installed pursuant to this Section 5.9 under a lease or conditional sale agreement, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

Section 5.10. Liens.

The District shall not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Property, other than the respective rights of the Corporation and the District as provided herein and Permitted Encumbrances. Except as expressly provided in this Article V, the District shall promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same shall arise at any time. The District shall reimburse the Corporation for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

ARTICLE VI
DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Section 6.1. Eminent Domain.

If all of the Property shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Term of this Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Property shall be taken permanently, or if all of the Property or any part thereof shall be taken temporarily under the power of eminent domain, (1) this Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (2) there shall be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments hereunder, in an amount to be agreed upon by the District and the Corporation, and so certified by such parties to the Assignee, such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Property.

Section 6.2. Application of Net Proceeds.

(a) *Repair or Replacement of Property.* The Net Proceeds of any insurance award resulting from any damage to or destruction of any portion of the Property by fire or other casualty, as applicable, of any title insurance award, or of any eminent domain award resulting from any event described in Section 6.1 hereof shall be paid by the Corporation and the District to the Assignee, as assignee of the Corporation under the Assignment Agreement. The District, except as provided below, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction, or replacement of the damaged or destroyed portion of the Property. The Assignee shall permit withdrawals of the proceeds from time to time upon receiving the written request of the District, stating that the District has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended or such liabilities were incurred. Any balance of the proceeds not required for such repair, reconstruction, or replacement shall be treated by the Assignee as Lease Payments

(b) *Prepayment of Lease.* Alternatively, the District, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay the Lease Payments in full as described in Section 10.2 hereof, may elect not to repair, reconstruct, or replace the damaged or destroyed portion of the Property, as applicable, and thereupon shall cause the proceeds to be used for the prepayment of the Lease Payments pursuant to Section 10.2.

Section 6.3. Abatement of Lease Payments in the Event of Damage or Destruction.

Lease Payments shall be abated during any period in which, by reason of damage or destruction, there is substantial interference with the use and occupancy by the District of the Property or any portion thereof (other than any portions of the Property described in Section 5.2 hereof) to the extent to be agreed upon by the District and the Corporation. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth in Exhibit C, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Property not damaged or destroyed (giving due consideration to the factors identified in the last sentence of Section 4.4(d)), based upon the opinion of an appraiser who is a member of the

American Institute of Real Estate Appraisers (an "MAI Appraiser") with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, this Lease Agreement shall continue in full force and effect and the District waives any right to terminate this Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under this Section 6.3 to the extent that the proceeds of rental interruption insurance are available to pay Lease Payments which would otherwise be abated under this Section 6.3, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

ARTICLE VII

DISCLAIMER OF WARRANTIES; ACCESS; INDEMNIFICATION

Section 7.1. Disclaimer of Warranties.

NEITHER THE CORPORATION NOR ITS ASSIGNS MAKES ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT TO THE PROPERTY. IN NO EVENT SHALL THE CORPORATION OR ITS ASSIGNS BE LIABLE FOR INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR ARISING OUT OF THE SITE LEASE OR THIS LEASE AGREEMENT FOR THE EXISTENCE, FURNISHING, FUNCTIONING OR THE DISTRICT'S USE OF THE PROPERTY.

Section 7.2. Access to the Property.

The District agrees that the Corporation and any Corporation Representative, and the Corporation's successors or assigns, shall have the right at all reasonable times to enter upon and to examine and inspect the Property. The District further agrees that the Corporation, any Corporation Representative, and the Corporation's successors or assigns shall have such rights of access to the Property as may be reasonably necessary to cause the proper maintenance of the Property in the event of failure by the District to perform its obligations hereunder.

Section 7.3. Release and Indemnification Covenants.

To the extent permitted by applicable law, the District shall and hereby agrees to indemnify and save the Corporation and its officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on the Property by the District, (ii) any breach or default on the part of the District in the performance of any of its obligations under this Lease Agreement, (iii) any act or omission of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act or omission of any sublessee of the District with respect to the Property, or (v) the payment of costs of the Property. No indemnification is made under this Section 7.3 or elsewhere in this Lease Agreement for willful misconduct, negligence or breach of duty under this Lease Agreement by the Corporation, its officers, agents, employees, successors or assigns.

ARTICLE VIII
ASSIGNMENT, SUBLEASING AND AMENDMENT

Section 8.1. Assignment by the Corporation.

Certain of the Corporation's rights under this Lease Agreement, including the right to receive and enforce payment of the Lease Payments to be made by the District under this Lease Agreement, have been assigned to the Assignee, pursuant to the Assignment Agreement and the District hereby consents to such assignment. The parties hereto agree that all rights of the Corporation and its Assignee hereunder may be assigned, transferred or otherwise disposed of, either in whole or in part, provided that notice of any such assignment, transfer or other disposition is given to District.

Section 8.2. Assignment and Subleasing by the District.

This Lease Agreement may not be assigned by the District. The District may not sublease the Property or any portion thereof.

Section 8.3. Amendment of this Lease Agreement .

(a) *Substitution of Property.* The District shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement to substitute other land and/or facility ("Substitute Property") for the Property (the "Former Property"), or a portion thereof, provided that the District shall satisfy all of the following requirements (to the extent applicable) which are hereby declared to be conditions precedent to such substitution:

- (i) The District shall file with the Corporation and the Assignee an amended Exhibit A to the Site Lease which adds thereto a description of such Substitute Property and deletes there from the description of the Former Property;
- (ii) The District shall file with the Corporation and the Assignee an amended Exhibit B to this Lease Agreement which adds thereto a description of such Substitute Property and deletes there from the description of the Former Property;
- (iii) The District shall certify in writing to the Corporation and the Assignee that such Substitute Property serves the purposes of the District, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the District is permitted to lease under the laws of the State;
- (iv) The District delivers to the Assignee and the Corporation evidence that the Substitute Property is of equal or greater value than the aggregate amount of the original principal component of the Lease Payments;
- (v) The Substitute Property shall not cause the District to violate any of its covenants, representations and warranties made herein;
- (vi) The District shall obtain an amendment to the title insurance policy required pursuant to Section 5.6 hereof which adds thereto a description of the Substitute Property and deletes there from the description of the Former Property; and

- (vii) The District shall certify that the Substitute Property is of the same or greater essentiality to the District as was the Former Property.

(b) *Release of Property.* The District shall have, and is hereby granted, the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Property, provided that the District shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such release:

- (i) The District shall file with the Corporation and the Assignee an amended Exhibit A to the Site Lease which describes the Property, as revised by such release;
- (ii) The District shall file with the Corporation and the Assignee an amended Exhibit B to this Lease Agreement which describes the Property, as revised by such release;
- (iii) The District delivers to the Assignee and the Corporation evidence that the Property, as revised by such release, is of a value at least equal to the value of the Property as of the Closing Date;
- (iv) Such release shall not cause the District to violate any of its covenants, representations and warranties made herein; and
- (v) The District shall obtain an amendment to the title insurance policy required pursuant to Section 5.6 hereof which describes the Property, as revised by such release.

(c) *Generally.* Neither the District nor the Corporation will alter, modify or cancel, or agree or consent to alter, modify or cancel this Lease Agreement, except in connection with a substitution or release permitted by this Section 8.3 or upon their mutual consent with the prior written consent of the Assignee.

ARTICLE IX EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events of Default Defined.

The following shall be "Events of Default" under this Lease Agreement and the terms "Events of Default" and "Default" shall mean, whenever they are used in this Lease Agreement, any one or more of the following events:

(a) Failure by the District to pay any Lease Payment or other payment required to be paid hereunder at the time specified herein.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Lease Agreement, other than as referred to in clause (a) of this Section 9.1, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation or the Assignee; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation and the Assignee shall not unreasonably withhold their consent to an extension of such time if corrective

action is instituted by the District within the applicable period and diligently pursued until the Default is corrected.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Section 9.2. Remedies on Default.

Whenever any Event of Default referred to in Section 9.1 hereof shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to this Lease Agreement; provided, however, that notwithstanding anything herein to the contrary, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. Each and every covenant hereof to be kept and performed by the District is expressly made a condition and upon the breach thereof the Corporation may exercise any and all rights of entry and re-entry upon the Property, and also, at its option, with or without such entry, may terminate this Lease Agreement; provided, that no such termination shall be effected either by operation of law or acts of the parties hereto, except only in the manner herein expressly provided. In the event of such Default and notwithstanding any re-entry by the Corporation, the District shall, as herein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of this Lease Agreement and the performance of all conditions herein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as herein provided, to wit:

(a) In the event the Corporation does not elect to terminate this Lease Agreement in the manner hereinafter provided for in subparagraph (b) hereof, the District agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions herein contained and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments hereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Corporation. The District hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to enter upon and re-lease the Property in the Event of Default by the District in the performance of any covenants herein contained to be performed by the District and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place in County, California, for the account of and at the expense of the District, and the District hereby exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Property and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions herein contained. The District hereby waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as herein provided and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the District that may be in or upon the Property. The District agrees that the terms of this Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Property in the event of such re-entry

without effecting a surrender of this Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of this Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such Default by the District the right to terminate this Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner hereinafter provided for in paragraph (b) hereof. The District further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and payments due pursuant to Section 4.7 hereof and hereby conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Property.

(b) In an Event of Default hereunder, the Corporation at its option may terminate this Lease Agreement and re-lease all or any portion of the Property. In the event of the termination of this Lease Agreement by the Corporation at its option and in the manner hereinafter provided on account of Default by the District (and notwithstanding any re-entry upon the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the District nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is herein provided in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be credited towards the Lease Payments next coming due and payable. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate this Lease Agreement, and no termination of this Lease Agreement on account of Default by the District shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate this Lease Agreement. The District covenants and agrees that no surrender of the Property and/or of the remainder of the Term of the Lease Agreement or any termination of this Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

Section 9.3. No Remedy Exclusive.

No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease Agreement now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in this Article IX it shall not be necessary to give any notice, other than such notice as may be required in this Article IX or by law.

Section 9.4. Agreement to Pay Attorneys' Fees and Expenses.

In the event either party to this Lease Agreement should default under any of the provisions hereof and the non-defaulting party should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefore pay to the non-defaulting party the reasonable fees of such attorneys and such other expenses so incurred by the non-defaulting party.

Section 9.5. No Additional Waiver Implied by One Waiver.

In the event any agreement contained in this Lease Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.6. Application of Proceeds.

All net proceeds received from the re-lease or other disposition of the Property under this Article IX, and all other amounts derived by the Corporation or the Assignee as a result of an Event of Default hereunder, shall be transferred to the Assignee promptly upon receipt thereof and after payment of all fees and expenses of the Assignee, including attorneys fees, shall be applied to the Lease Payments in order of payment date.

Section 9.7. Assignee to Exercise Rights.

Such rights and remedies as are given to the Corporation under this Article IX have been assigned by the Corporation to the Assignee, under the Assignment Agreement, to which assignment the District hereby consents. Such rights and remedies shall be exercised by the Assignee as provided in the Assignment Agreement and herein.

ARTICLE X PREPAYMENT OF LEASE PAYMENTS

Section 10.1. Prepayment Option.

The Corporation hereby grants an option to the District to prepay the principal component of the Lease Payments in full, by paying the aggregate unpaid principal components of the Lease Payments as set forth in Exhibit C hereto, in a prepayment amount equal to the principal amount of Lease Payments to be prepaid, without premium.

Said option shall be exercised by the District at any time by giving written notice to the Corporation and the Assignee of the exercise of such option at least thirty (30) days prior to said date. Such option shall be exercised by depositing with said notice cash in an amount, which will be sufficient to pay the aggregate unpaid component of the Lease Payments on said Lease Payment Date as set forth in Exhibit C hereto, together with any Lease Payments then due but unpaid and any accrued interest to such prepayment date.

Section 10.2. Prepayment From Net Proceeds of Insurance, Title Insurance or Eminent Domain.

If the District opts to prepay the Lease Payment pursuant to Section 6.2 hereof, the District may do so in whole on any date or in part on any Lease Payment Date, from and to the extent of any Net Proceeds of an insurance, title insurance or condemnation award with respect to the Property. The District and the Corporation hereby agree that such Net Proceeds shall be applied first to the payment of any delinquent Lease Payments, and thereafter shall be credited towards the District's obligations under this Section 10.2. Lease Payments due after any such partial prepayment shall be in the amounts set forth

in a revised Lease Payment schedule which shall be provided by, or caused to be provided by, the District to the Assignee and which shall represent an adjustment to the schedule set forth in Exhibit C attached hereto taking into account said partial prepayment.

ARTICLE XI MISCELLANEOUS

Section 11.1. Notices.

All notices shall be in writing addressed to the respective party (or to such other address as the party to whom such notice is intended shall have previously designated by written notice to the serving party), and may be personally served, telecopied, or sent by overnight courier service or United States mail.

If to the Corporation: Pajaro Valley Unified School District Financing Corporation
294 Green Valley Road
Watsonville, CA 95076
Attention: Mary Hart, CFO

If to the District: Pajaro Valley Unified School District
294 Green Valley Road
Watsonville, CA 95076
Attention: Superintendent

If to the Assignee: Zions First National Bank
Public Financial Services
One South Main Street, 17th Floor
Salt Lake City, UT 84133
Attention: Mark Tsuyuki

Such notices shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted by 4:00 p.m. (Salt Lake City time) on a Business Day or, if not, on the next succeeding Business Day; (c) if delivered by an overnight courier service, two Business Days after delivery to such courier properly addressed; or (d) if by United States mail, four Business Days after depositing in the United States mail, postage prepaid and properly addressed.

Section 11.2. Binding Effect.

This Lease Agreement shall inure to the benefit of and shall be binding upon the Corporation and the District and their respective successors and assigns.

Section 11.3. Severability.

In the event any provision of this Lease Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 11.4. Net-net-net Lease.

This Lease Agreement shall be deemed and construed to be a "net-net-net lease" and the District hereby agrees that the Lease Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Section 11.5. Further Assurances and Corrective Instruments.

The Corporation and the District agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property hereby leased or intended so to be or for carrying out the expressed intentions of this Lease Agreement.

Section 11.6. Execution in Counterparts.

This Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 11.7. Applicable Law.

This Lease Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 11.8. Corporation and District Representatives.

Whenever under the provisions of this Lease Agreement the approval of the Corporation or the District is required, or the Corporation or the District is required to take some action at the request of the other, such approval or such request shall be given for the Corporation by a Corporation Representative and for the District by a District Representative, and each party hereto shall be authorized to rely upon any such approval or request.

Section 11.9. Captions.

The captions or headings in this Lease Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Lease Agreement.

Section 11.10 [Reserved]

Section 11.11. System of Registration.

The District shall be the Registrar for this Lease Agreement and the rights to payments hereunder. The Corporation's Assignee shall be the initial Registered Owner of rights to receive payments hereunder. If the Assignee transfers its rights to receive payments hereunder, the Registrar shall note on this Lease Agreement the name and address of the transferee.

Section 11.12. Instruments of Further Assurance.

To the extent, if any, that the interest of the Corporation and its Assignee in the Property as lessor under this Lease Agreement is deemed to be a security interest in the Property, then the District shall be deemed to have granted, and in such event the District does hereby grant, a security interest in the Property to the Corporation and its Assignee, which security interest includes proceeds, and this Lease Agreement shall constitute a security agreement under applicable law. Concurrently with the execution of this Lease Agreement, the District has executed, delivered, and filed and/or recorded all financing statements, UCC forms, mortgages, deeds of trust, notices, filings, and/or other instruments, in form required for filing and/or recording thereof, as are required under applicable law to fully perfect such security interest of the Corporation and its Assignee in the property (collectively "Security Documents"), including without limitation the filing and/or recording of this Lease Agreement. Attached hereto as Exhibit I are copies of all such Security Documents. The District will do, execute, acknowledge, deliver and record, or cause to be done, executed, acknowledged, delivered and recorded, such additional acts, notices, filings and instruments as the Corporation or its Assignee may require in its sole discretion to evidence, reflect and perfect the title, ownership, leasehold interest, security interest and/or other interest of the Corporation and its Assignee in and to any part or all of the Property promptly upon the request of the Corporation or its Assignee.

Section 11.13. Arbitration.

To the extent permitted by law, any dispute, controversy or claim arising out of or based upon the terms of this Lease Agreement or the transactions contemplated hereby shall be settled exclusively and finally by binding arbitration. Upon written demand for arbitration by any party hereto, the parties to the dispute shall confer and attempt in good faith to agree upon one arbitrator. If the parties have not agreed upon an arbitrator within thirty (30) days after receipt of such written demand, each party to the dispute shall appoint one arbitrator and those two arbitrators shall agree upon a third arbitrator. Any arbitrator or arbitrators appointed as provided in this section shall be selected from panels maintained by, and the binding arbitration shall be conducted in accordance with the commercial arbitration rules of, the American Arbitration Association (or any successor organization), and such arbitration shall be binding upon the parties. The arbitrator or arbitrators shall have no power to add or detract from the agreements of the parties and may not make any ruling or award that does not conform to the terms and conditions of this Lease Agreement. The arbitrator or arbitrators shall have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages. Judgement upon an arbitration award may be entered in any court having jurisdiction. The prevailing party in the arbitration proceedings shall be awarded reasonable attorney fees and expert witness costs and expenses.

IN WITNESS WHEREOF, the Corporation has caused this Lease Agreement to be executed in its corporate name by its duly authorized officers; and the District has caused this Lease Agreement to be executed in its name by its duly authorized officers, as of the date first above written.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT FINANCING
CORPORATION, as Lessor

By _____
Authorized Officer

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

PAJARO VALLEY UNIFIED SCHOOL DISTRICT, as Lessee

By _____
Authorized Officer

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

STATE OF CALIFORNIA
COUNTY OF

)
)

On _____ before me, _____, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary _____ (Seal)

EXHIBIT A

DEFINITIONS

EXHIBIT A

DEFINITIONS

"Advance" shall have the meaning set forth in Section 2.1(j)(i)(D) hereof.

"Assignee" means Zions First National Bank, or any successor thereto.

"Assignment Agreement" means the Assignment Agreement, dated as of January 4, 2010, by and between the Corporation and the Assignee, together with any duly authorized and executed amendments thereto.

"Authorizing Resolution" means the Resolution adopted by the Governing Body authorizing this Lease Agreement, in substantially the form attached hereto as Exhibit H.

"Closing Date" means the date the lease agreement is executed by the Corporation and the District.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commencement Date" means the date this Lease Agreement is executed by the Corporation and the District.

"Corporation" means the Pajaro Valley Unified School District Financing Corporation, a non-profit public benefit corporation organized and existing under the laws of the State.

"Corporation Representative" means the President, the Vice President, the Executive Director, the Assistant Executive Director, the Treasurer, the Assistant Treasurer, the Secretary, the Assistant Secretary or any other person authorized by resolution of the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Lease Agreement, the Assignment Agreement and the Trust Agreement.

"Bond Counsel" means any attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations of public entities.

"Business Day" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Assignee is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

"District" means the Pajaro Valley Unified School District, a district duly organized and existing under and by virtue of the constitution and laws of the State.

"District Representative" means the President of the Governing Board of the District, the Superintendent, the Assistant Superintendent, Business Services, or any other person authorized by resolution of the Governing Board of the District to act on behalf of the District under or with respect to the Lease Agreement.

"Environmental Law" means all federal, state or local laws, statutes, regulations, ordinances and other provisions having the force or effect of law, all judicial and administrative orders and determinations, all contractual obligations and all common law relating to public health and safety, worker health and safety, pollution, the environment, wetlands, the preservation and reclamation of natural resources or waste management, including without limitation all those relating to the presence, use, production, generation, handling, transportation, treatment, storage, disposal, distribution, labeling, testing, processing, discharge, release, threatened release, control or cleanup of any hazardous materials, substances or wastes, chemical substances or mixtures, pesticides, pollutants, contaminants, toxic chemicals, petroleum products or byproducts, asbestos, solvents, urea formaldehyde, dioxins, polychlorinated biphenyls, noise or radiation, each as amended and as now or hereafter in effect. The term Environmental Law shall include (by way of illustration rather than limitation) the Clean Water Act, 33 U.S.C. Section 1251, *et seq.*, the Clean Air Act, 42 U.S.C. Section 7401, *et seq.*, the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, *et seq.*, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601, *et seq.*, the Toxic Substances Control Act, 15 U.S.C. Section 2601, *et seq.*, the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C. Section 135, *et seq.*, and the Hazardous Materials Transportation Act, 39 U.S.C. Section 1801, *et seq.* and any regulations, guidelines, directives or other interpretations of any such enactment, all as amended from time to time.

"Event of Default" means an event of default under the Lease Agreement, as defined in Section 9.1 thereof.

"Fiscal Year" means the twelve-month period beginning on July 1 of any year and ending on June 30 of the next succeeding year, or any other twelve-month period selected by the District as its fiscal year.

"Governing Body" means the Governing Board of the District.

"Hazardous Materials" means any hazardous, dangerous or toxic chemical, waste, byproduct, pollutant, contaminant, compound, product or substance the manufacture, storage, transport, generation, use, treatment, exposure to, release, threatened release, discharge, remediation, cleanup, abatement, removal, possession, recycling, disposal or other disposition of which is prohibited or regulated (including without limitation, being subjected to notice, reporting, record keeping, or clean-up requirements) by any Environmental Law; provided, however, that if the Property is a school, then the term "Hazardous Materials" shall not include such chemicals in such amounts as are typically used in classroom instruction.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the District, the Corporation or the Assignee.

"Interest Payment Date" means January 15 and July 15, commencing July 15, 2010.

"Lease Agreement" means the Lease Agreement, dated as of January 4, 2010, by and between the Corporation and the District, together with any duly authorized and executed amendments thereto.

"Lease Payment Date" shall have the meaning set forth in Section 4.4(a) hereof.

"Lease Payments" means all payments required to be paid by the District pursuant to Section 4.4 of the Lease Agreement, including any prepayment thereof pursuant to Article X of the Lease Agreement, which payments consist of an interest component and a principal component.

"Net Proceeds," when used with respect to insurance or condemnation proceeds, means any insurance proceeds or condemnation award paid with respect to the Property, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"Obligation Instrument" shall have the meaning set forth in Section 2.1(c) hereof.

"Permitted Encumbrances" means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of Article V of the Lease Agreement, permit to remain unpaid; (b) the Assignment Agreement; (c) the Lease Agreement; (d) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the District certifies in writing will not materially impair the use of the Property; and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease Agreement and to which the Corporation and the District consent in writing.

"Project" shall have the meaning set forth in the recitals of the lease agreement hereof (see page 1 of lease agreement).

"Property" means the property to be leased to the District pursuant to the Lease Agreement, all as more particularly described in Exhibit B attached to the Lease Agreement, as the same may be amended from time to time.

"Rebate Exemption" shall have the meaning set forth in Section 2.1(j)(ii)(A) hereof.

"Reimbursable Expenditure" shall have the meaning set forth in Section 2.1(j)(i)(k)(II) hereof.

"Rental Period" means each twelve-month period during the Term of the Lease Agreement commencing on July 1 in any year and ending June 30 the next succeeding year; provided, however, that the first Rental Period shall begin on January 4, 2010, and shall end on June 30, 2010.

"Site Lease" means the Site Lease, dated as of January 4, 2010, by and between the District and the Corporation, together with any duly authorized and executed amendments thereto.

"State" means the State of California.

"Term of the Lease Agreement" means the time during which the Lease Agreement is in effect, as provided in Section 4.2 of the Lease Agreement.

EXHIBIT B

DESCRIPTION OF THE PROPERTY

EXHIBIT B

DESCRIPTION OF THE PROPERTY

The land referred to herein is in the State of California, County of Santa Cruz, City of Watsonville, and is described as follows:

Location of Property 2350 East Lake Avenue, Watsonville, CA 95076

A.P.N. (Affects this and other property) 051-501-12 and 051-501-17

EXHIBIT C

SCHEDULE OF LEASE PAYMENTS

EXHIBIT C

SCHEDULE OF LEASE PAYMENTS

1. Interest.

The principal components of the Lease Payments shown for years 2010 through and including January 15, 2015 on the attached Payment Schedule shall bear interest at the rate of four and four hundredths percent (4.04%) per annum.

The principal components of the Lease Payments shown for all payments after January 15, 2015 on the attached Payment Schedule shall bear interest from their Lease Effective Date to, but not including January 15, 2015 at the initial Interest Rate of 4.04% per annum. On January 15, 2015, January 15, 2020, and on January 15, 2025 (each an "Adjustment Date"), the interest rate on any such maturities shall be adjusted to equal ninety-five percent (95%) of the Index Rate (as herein defined) as of said date (rounded to the nearest one hundredth of one percent), to, but not including, the next Adjustment Date. On the last Business Day which is at least fifteen (15) days prior to each Adjustment Date, the Bank shall determine the Index Rate for the next succeeding Adjustment Date and shall give notification to the Lessee (by telephone or facsimile transmission) of the rate so determined. Beginning on the next succeeding Adjustment Date, the interest rate on any such Remaining Maturities shall then be adjusted to equal the rate described above.

For purposes of the preceding paragraph, the Index Rate shall mean a rate per annum which equals the five year Advance Fixed Bullet Rate as quoted by the Seattle Federal Home Loan Bank as available on their Internet site (currently www.fhlbsea.com) or such other information distribution method the Seattle Federal Home Loan Bank should utilize, or if the Seattle Federal Home Loan Bank should not make five year advance rate quotes at some time in the future, then the Index Rate shall be a rate which equals the five year Swap Rates Benchmark Rate plus the five year Ask Swap Spread as quoted on Bloomberg "SWYC" <Go>, "24" <Go>, "1" <Go>.

2. Payment Dates and Amounts.

SEE ATTACHED PAYMENT SCHEDULE, WHICH BREAKS OUT PRINCIPAL AND INTEREST SEPARATELY

Pajaro Valley Unified School District**\$1,415,000 Real Property Lease**

Dated January 4, 2010

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
01/15/2010	-	-	-	-
07/15/2010	21,641.06	4.040%	30,329.74	51,970.80
01/15/2011	23,824.95	4.040%	28,145.85	51,970.80
07/15/2011	24,306.21	4.040%	27,664.59	51,970.80
01/15/2012	24,797.20	4.040%	27,173.60	51,970.80
07/15/2012	25,298.10	4.040%	26,672.70	51,970.80
01/15/2013	25,809.12	4.040%	26,161.68	51,970.80
07/15/2013	26,330.46	4.040%	25,640.33	51,970.79
01/15/2014	26,862.34	4.040%	25,108.46	51,970.80
07/15/2014	27,404.96	4.040%	24,565.84	51,970.80
1/15/2015*	27,958.54	4.040%	24,012.26	51,970.80
07/15/2015	28,523.30	4.040%	23,447.49	51,970.79
01/15/2016	29,099.47	4.040%	22,871.32	51,970.79
07/15/2016	29,687.28	4.040%	22,283.51	51,970.79
01/15/2017	30,286.96	4.040%	21,683.83	51,970.79
07/15/2017	30,898.76	4.040%	21,072.04	51,970.80
01/15/2018	31,522.92	4.040%	20,447.88	51,970.80
07/15/2018	32,159.68	4.040%	19,811.12	51,970.80
01/15/2019	32,809.31	4.040%	19,161.49	51,970.80
07/15/2019	33,472.05	4.040%	18,498.74	51,970.79
1/15/2020*	34,148.19	4.040%	17,822.61	51,970.80
07/15/2020	34,837.98	4.040%	17,132.81	51,970.79
01/15/2021	35,541.71	4.040%	16,429.09	51,970.80
07/15/2021	36,259.65	4.040%	15,711.14	51,970.79
01/15/2022	36,992.10	4.040%	14,978.70	51,970.80
07/15/2022	37,739.34	4.040%	14,231.46	51,970.80
01/15/2023	38,501.67	4.040%	13,469.12	51,970.79
07/15/2023	39,279.41	4.040%	12,691.39	51,970.80
01/15/2024	40,072.85	4.040%	11,897.95	51,970.80
07/15/2024	40,882.32	4.040%	11,088.48	51,970.80
1/15/2025*	41,708.14	4.040%	10,262.65	51,970.79
07/15/2025	42,550.65	4.040%	9,420.15	51,970.80
01/15/2026	43,410.17	4.040%	8,560.63	51,970.80
07/15/2026	44,287.06	4.040%	7,683.74	51,970.80
01/15/2027	45,181.66	4.040%	6,789.14	51,970.80
07/15/2027	46,094.32	4.040%	5,876.47	51,970.79
01/15/2028	47,025.43	4.040%	4,945.37	51,970.80
07/15/2028	47,975.34	4.040%	3,995.45	51,970.79
01/15/2029	48,944.45	4.040%	3,026.35	51,970.80
07/15/2029	49,933.12	4.040%	2,037.67	51,970.79
01/15/2030	50,941.77	4.040%	1,029.02	51,970.79
Total	\$1,415,000.00	-	\$663,831.86	\$2,078,831.86

*Interest rate resets to 95% of the 5 year Seattle Federal Home Loan Bank Advance Bullet Fixed rate.

Pajaro Valley Unified School District

\$1,415,000 Real Property Lease

Dated January 4, 2010

Debt Service Schedule

Part 2 of 2

Yield Statistics

Bond Year Dollars	\$16,431.48
Average Life	11.612 Years
Average Coupon	4.0400000%
Net Interest Cost (NIC)	4.0400000%
True Interest Cost (TIC)	4.0398535%
Bond Yield for Arbitrage Purposes	4.0398535%
All Inclusive Cost (AIC)	4.0398535%

IRS Form 8038

Net Interest Cost	4.0400000%
Weighted Average Maturity	11.612 Years

EXHIBIT D

SITE LEASE

PLEASE RECORD, AND
AFTER RECORDATION RETURN TO:

Kirsi Hansen
Zions First National Bank
One South Main Street, 17th Floor
Salt Lake City, UT 84133

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE. THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF THE CALIFORNIA GOVERNMENT CODE.

SITE LEASE

THIS SITE LEASE (this "Site Lease"), dated as of January 4, 2010, is by PAJARO VALLEY UNIFIED SCHOOL DISTRICT and between, a district duly organized and existing under and by virtue of the laws of the State of California (the "District"), as lessor, and the PAJARO VALLEY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), as lessee;

WITNESSETH:

WHEREAS, the Corporation intends to assist the District in undertaking the financing of the costs of the acquisition, construction, installation and equipping of certain real property and/or capital improvements, including equipment, for use by the District (the "Project"), by leasing certain existing real property and improvements to the District pursuant to a Lease Agreement, dated as of January 4, 2010 (the "Lease Agreement"); and

WHEREAS, the District proposes to enter into this Site Lease with the Corporation as a material consideration for the Corporation's agreement to lease such real property and improvements to the District;

WHEREAS, the Corporation intends to assign certain of its rights under this Site Lease to Zions First National Bank, as assignee (the "Assignee"), pursuant to that certain Assignment Agreement, dated as of the date hereof, by and between the Corporation and the Assignee,

NOW, THEREFORE, IT IS HEREBY MUTUALLY AGREED, as follows:

Section 1. Definitions.

Capitalized terms used, but not otherwise defined, in this Site Lease shall have the meanings ascribed to them in the Lease Agreement.

Section 2. Site Lease.

The District hereby leases to the Corporation and the Corporation hereby leases from the District, on the terms and conditions hereinafter set forth, the real property more particularly described in Exhibit A attached hereto and made a part hereof (the "Property"). The interest in real property conveyed by this site Lease is hereby accepted by the undersigned officer on behalf of the Corporation pursuant to authority conferred by resolution of the Governing Board of the Corporation and the Corporation consents to recordation thereof by its duly authorized officer.

Section 3. Term.

The term of this Site Lease shall commence on January 4, 2010, and shall end on January 15, 2030, unless such term is extended or sooner terminated as hereinafter provided. If, on January 15, 2030, the aggregate amount of Lease Payments (as defined in and as payable under the Lease Agreement) shall not have been paid, or provision shall not have been made for their payment, then the term of this Site Lease shall be extended until such Lease Payments shall be fully paid or provision made for such payment. If, prior to January 15, 2030, all Lease Payments shall be fully paid or provision made for such payment in accordance with the Lease Agreement, the term of this Site Lease shall end ten (10) days thereafter.

Section 4. Advance Rental Payment.

The District agrees to lease the Property to the Corporation in consideration of the payment by the Corporation of an advance rental payment of \$1,415,000.00. The District and the Corporation agree that, by reason of the assignment of the Lease Payments to the Assignee pursuant to the provisions of the Assignment Agreement, the advance rental payment referenced in the preceding sentence shall be deemed to have been paid.

Section 5. Purpose.

The Corporation shall use the Property solely for the purpose of leasing the Property to the District pursuant to the Lease Agreement and for such purposes as may be incidental thereto; provided, however, that in the event of default by the District under the Lease Agreement, the Corporation and its assigns may exercise the remedies provided in the Lease Agreement.

Section 6. District's Interest in the Property.

The District covenants that it is the owner in fee of the Property.

Section 7. Assignments and Subleases.

Certain of the Corporation's rights under this Site Lease have been assigned to the Assignee pursuant to the Assignment Agreement and the District hereby consents to such assignment. The parties hereto agree that all rights of the Corporation and its Assignee hereunder may be assigned, transferred or otherwise disposed of, either in whole or in part, provided that notice of any such assignment, transfer or other disposition is given to District.

Unless the District shall be in default under the Lease Agreement, the Corporation and its Assignee hereunder may not sublet the Property, except as provided in the Lease Agreement, without the written consent of the District.

Section 8. Right of Entry.

The District reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Section 9. Termination.

The Corporation agrees, upon the termination of this Site Lease, to quit and surrender the Property.

Section 10. Default.

In the event the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of this Site Lease, which default continues for thirty (30) days following notice and demand for correction thereof to the Corporation, the District may exercise any and all remedies granted by law, except that no merger of this Site Lease and of the Lease Agreement shall be deemed to occur as a result thereof.

Section 11. Quiet Enjoyment.

The Corporation, at all times during the term of this Site Lease, shall peaceably and quietly have, hold and enjoy all of the Property subject to the provisions of the Lease Agreement.

Section 12. Waiver of Personal Liability.

All liabilities under this Site Lease on the part of the Corporation are solely liabilities of the Corporation and the District hereby releases each and every, member, director, officer, employee and agent of the Corporation of and from any personal or individual liability under this Site Lease. No member, director, officer, employee or agent of the Corporation shall at any time or under any circumstances be individually or personally liable under this Site Lease for anything done or omitted to be done by the Corporation hereunder.

Section 13. Taxes.

All assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property (including both land and improvements) will be paid in accordance with the Lease Agreement.

Section 14. Use of the Proceeds.

The District and the Corporation hereby agree that the lease to the Corporation of the District's right and interest in the Property pursuant to Section 2 serves the public purposes of the District by providing funds to enable the District to finance the Project. The District hereby agrees that the proceeds of the assignment of the Lease Payments shall be used solely for the purpose of paying the costs of financing the Project.

Section 15. Partial Invalidity.

If any one or more of the terms, provisions, covenants or conditions of this Site Lease shall, to any extent, be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding, order or decree of which becomes final, none of the remaining terms, provisions, covenants and conditions of this Site Lease shall be affected thereby, and each provision of this Site Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 16. Notices.

All notices shall be in writing addressed to the respective party (or to such other address as the party to whom such notice is intended shall have previously designated by written notice to the serving party), and may be personally served, telecopied, or sent by overnight courier service or United States mail.

If to the Corporation: Pajaro Valley Unified School District Financing Corporation
294 Green Valley Road
Watsonville, CA 95076
Attention: Mary Hart, CFO

If to the District: Pajaro Valley Unified School District
294 Green Valley Road
Watsonville, CA 95076
Attention: Superintendent

If to the Assignee: Zions First National Bank
Public Financial Services
One South Main Street, 17th Floor
Salt Lake City, UT 84133
Attention: Mark Tsuyuki

Such notices shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted by 4:00 p.m. (Salt Lake City time) on a Business Day or, if not, on the next succeeding Business Day; (c) if delivered by an overnight courier service, two Business Days after delivery to such courier properly addressed; or (d) if by United States mail, four Business Days after depositing in the United States mail, postage prepaid and properly addressed.

Section 17. Section Headings.

All section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this Site Lease.

Section 18. Applicable Law.

This Site Lease shall be governed by and construed in accordance with the laws of the State of California.

Section 19. Execution in Counterparts.

This Site Lease may be executed in any number of counterparts, each of which shall be deemed to be an original but all together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the District and the Corporation have caused this Site Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT

By _____
(Authorized Officer)

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
FINANCING CORPORATION

By _____
(Authorized Officer)

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

STATE OF CALIFORNIA
COUNTY OF

)
)

On _____ before me, _____, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary _____ (Seal)

STATE OF CALIFORNIA
COUNTY OF

)
)

On _____ before me, _____, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary _____ (Seal)

EXHIBIT A TO SITE LEASE

DESCRIPTION OF THE SITE

The land referred to herein is in the State of California, County of Santa Cruz, City of Watsonville, and is described as follows:

Location of Property 2350 East Lake Avenue, Watsonville, CA 95076

A.P.N. (Affects this and other property) 051-501-12 and 051-501-17

EXHIBIT E

FORM OF OPINION OF COUNSEL TO DISTRICT

FORM OF OPINION OF COUNSEL TO DISTRICT

January 4, 2010

Pajaro Valley Unified School District Financing Corporation
294 Green Valley Road
Watsonville, CA 95076

Zions First National Bank
Public Financial Services
One South Main Street, 17th Floor
Salt Lake City, Utah 84133
Attention: Mark Tsuyuki

Re: Lease Agreement, dated as of January 4, 2010, by and between the Pajaro Valley Unified School District Financing Corporation and the Pajaro Valley Unified School District.

Ladies and Gentlemen:

As counsel to the Pajaro Valley Unified School District (the "District"), I have examined the duly executed originals of the Site Lease, dated as of January 4, 2010, by and between the District and the Pajaro Valley Unified School District Financing Corporation (the "Corporation"), and the Lease Agreement dated as of January 4, 2010, between the District and the Corporation (collectively, the "Agreements"), and the proceedings taken by the governing body of District to authorize the execution and delivery of the Agreements on behalf of District (the "Proceedings"). Based upon the foregoing examination and upon an examination of such other documents and matters of law as I have deemed necessary or appropriate, I am of the opinion that:

1. The District is a school district duly organized and legally existing under the Constitution and laws of the State of California (the "State") with full power and authority to adopt and/or enter into the Agreements and the Proceedings.

2. The Agreements and the Proceedings have been duly adopted, authorized, executed and delivered by District, do not require the seal of District to be effective, valid, legal, or binding and, assuming due authorization, execution and delivery thereof by the other parties thereto, constitute the legal, valid and binding obligations of District, enforceable against District in accordance with their terms, subject to any applicable bankruptcy, insolvency, moratorium or other laws or equitable principles affecting the enforcement of creditors' rights generally.

3. The governing body of District has complied with all applicable open public meeting and notice laws and requirements with respect to the meeting at which the Proceedings were adopted and the District's execution of the Agreements was authorized.

4. Either there are no procurement or public bidding laws of the State applicable to the acquisition and leasing of the Property (as defined in the Agreements) from the Corporation under the Agreements, or the acquisition and leasing of the Property from the Corporation under the Agreements comply with all such procurement and public bidding laws as may be applicable.

5. The Agreements are in accordance with and do not violate the usury statutes of the State, if any.

6. There are no legal or governmental proceedings or litigation pending or, to the best of my knowledge, threatened or contemplated (or any basis therefor) wherein an unfavorable decision, ruling or finding might adversely affect the transactions contemplated in or the validity of the Agreements.

7. The adoption, execution and/or delivery of the Agreements and the Proceedings, and the compliance by the District with their provisions, will not conflict with or constitute a breach of or default under any court decree or order or any agreement, indenture, lease or other instrument or any existing law or administrative regulation, decree or order to which the District is subject or by which the District is or may be bound.

8. The adoption, execution and/or delivery of the Lease Agreement and the Proceedings, and the compliance by the Lessee with their provisions, will not conflict with or constitute a breach of or default under any court decree or order or any agreement, indenture, lease or other instrument or any existing law or administrative regulation, decree or order to which the Lessee is subject or by which the Lessee is or may be bound.

9. Although we are not opining as to the ownership of the Leased Property or the priority of liens thereon, it is also our opinion that the Security Documents in exhibit to the Lease Agreement are sufficient in substance, form, and description, and indicated place, address, and method of filing and/or recording, to completely and fully perfect the security interest in every portion of the Leased Property granted under the Lease Agreement, and no other filings and/or recordings are necessary to fully perfect said security interest in the Leased Property.

This opinion may be relied upon by purchasers and assignees of the Corporation's interests in the Agreements.

Respectfully submitted,

By _____

EXHIBIT F

INSURANCE CERTIFICATE

[TO BE ATTACHED]

EXHIBIT G

ASSIGNMENT AGREEMENT

PLEASE RECORD, AND
AFTER RECORDATION RETURN TO:

Kirsi Hansen
Zions First National Bank
One South Main Street, 17th Floor
Salt Lake City, UT 84133

THIS TRANSACTION IS EXEMPT FROM CALIFORNIA DOCUMENTARY TRANSFER TAX
PURSUANT TO SECTION 11929 OF THE CALIFORNIA REVENUE AND TAXATION CODE.
THIS DOCUMENT IS EXEMPT FROM RECORDING FEES PURSUANT TO SECTION 27383 OF
THE CALIFORNIA GOVERNMENT CODE.

ASSIGNMENT AGREEMENT

THIS ASSIGNMENT AGREEMENT, made and entered into as of January 4, 2010, is by and between the PAJARO VALLEY UNIFIED SCHOOL DISTRICT FINANCING CORPORATION, a nonprofit, public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), and ZIONS FIRST NATIONAL BANK, a national banking association duly organized and existing under the laws of the United States of America, as assignee (the "Assignee");

WITNESSETH:

In the joint and mutual exercise of their powers, in consideration of the mutual covenants herein contained and for other valuable consideration, the parties hereto recite and agree as follows:

Section 1. Recitals.

(a) The Pajaro Valley Unified School District (the "District"), and the Corporation have entered into a site lease, dated as of January 4, 2010 (the "Site Lease"), whereby the District has agreed to lease to the Corporation, and the Corporation has agreed to lease from the District, certain property more particularly described in Exhibit A attached hereto (the "Property"), in the manner and on the terms set forth in the Site Lease;

(b) The Corporation and the District have entered into a lease agreement, dated as of January 4, 2010 (the "Lease Agreement"), whereby the Corporation has agreed to lease to the District, and the District has agreed to lease from the Corporation, (the Property), in the manner and on the terms set forth in the Lease Agreement, which terms include, without limitation, the obligation of the District to pay Lease Payments (as defined in the Lease Agreement) to the Corporation in consideration of the District's use and enjoyment of the Property.

(c) Under the Lease Agreement, the Corporation is required to cause to be deposited with the District certain sums of money for the payment or reimbursement for the payment of the Property.

(d) Each of the parties has authority to enter into this Assignment Agreement and has taken all actions necessary to authorize its officers to execute it.

Section 2. Assignment.

The Corporation hereby transfers, assigns and sets over to the Assignee all of the Corporation's rights, but none of its obligations, under the Lease Agreement (excepting only the Corporation's rights under Sections 5.8, 7.3 and 9.4 of the Lease Agreement), including without limitation (i) the right to receive and collect all of the Lease Payments from the District under the Lease Agreement, (ii) the right to receive and collect any proceeds of any insurance maintained there under and of any condemnation award rendered with respect to the Property, and (iii) the right to exercise such rights and remedies conferred on the Corporation pursuant to the Lease Agreement as may be necessary or convenient (A) to enforce payment of the Lease Payments, or (B) otherwise to protect the interests of the Assignee in the event of a default by the District under the Lease Agreement.

The Corporation hereby transfers, assigns and sets over to the Assignee all of the Corporation's rights, but none of its obligations, under the Site Lease (excepting only the Corporation's rights under Section 12 of the Site Lease).

Section 3. Acceptance.

The Assignee hereby accepts the assignments made herein.

Section 4. Application of Proceeds.

In consideration of the Assignee's right to receive Lease Payments, the Assignee shall, on the Closing Date, transfer the amount of \$1,415,000.00, to or to the order of the District.

Section 5. Conditions.

This Assignment Agreement shall neither confer rights nor impose duties upon the Assignee beyond those expressly provided in the Lease Agreement. The Assignee assumes no responsibility for the accuracy of the recitals herein.

Section 6. Applicable Law.

This Assignment Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 7. Execution in Counterparts.

This Assignment Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Assignment Agreement by their duly authorized officers as of the day and year first written above.

PAJARO VALLEY UNIFIED SCHOOL DISTRICT
FINANCING CORPORATION

By _____
Signature of Authorized Officer

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

ZIONS FIRST NATIONAL BANK as Assignee

By _____
Authorized Officer

Printed Name of Authorized Officer

Title _____
Title of Authorized Officer

STATE OF CALIFORNIA
COUNTY OF

)
)

On _____ before me, _____, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature of Notary _____ (Seal)

STATE OF UTAH)
COUNTY OF SALT LAKE)

On _____ before me, _____, Notary Public, personally appeared _____, proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity, and that by his/her/their signature on the instrument the person, or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature of Notary _____ (Seal)

EXHIBIT H

DISTRICT AUTHORIZING RESOLUTION

RESOLUTION NO. ____

**RESOLUTION AUTHORIZING AND DIRECTING THE EXECUTION OF CERTAIN
LEASE FINANCING DOCUMENTS AND AUTHORIZING AND DIRECTING
CERTAIN ACTIONS WITH RESPECT THERETO**

RESOLVED, by the Governing Board (the "Governing Body") of Pajaro Valley Unified School District, Watsonville, California (the "District"), as follows:

WHEREAS, the District proposes to finance the costs of the acquisition, construction, installation, and/or equipping of certain land and/or capital improvements thereon and/or equipment related thereto through a lease of certain real property and/or equipment located at the location[s] all as described and specified in the hereinafter described Lease Agreement and/or exhibit[s] thereto (the "Property"), excluding any existing land, facilities, and/or equipment, if any, to the extent not included in such descriptions and specifications of the Property to be leased there under, for use by the District (the "Project");

WHEREAS, the District has determined to finance the Project by entering into a lease agreement (the "Lease Agreement") with the Pajaro Valley Unified School District Financing Corporation (the "Corporation");

WHEREAS, it is in the public interest and for the public benefit that the District authorize and direct execution of a lease agreement with the Corporation and certain other financing documents in connection therewith;

WHEREAS, the documents below specified have been filed with the District and the members of the Governing Body, with the aid of its staff, shall review said documents;

NOW, THEREFORE, it is hereby DECLARED and ORDERED, as follows:

Section 1.

The below-enumerated documents be and are hereby approved, and the President of the Governing Body or designee, is hereby authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such official, and the Secretary of the Governing Body is hereby authorized and directed to attest to such official's signature:

(a) a site lease, by and between the District and the Corporation, pursuant to which the District will lease certain real property (the "Property") to the Corporation; and

(b) a lease agreement, by and between the Corporation, as lessor, and the District, as lessee (the "Lease Agreement"), pursuant to which the Corporation will lease the Property back to the District, so long as the term of the Lease Agreement does not exceed 20 years, the total amount of the Lease Agreement does not exceed \$1,415,000.00 and the interest rate payable with respect to the Lease Agreement shall be determined according to the formula set forth on Exhibit C to the Lease Agreement.

Section 2.

The President of the Board, the Secretary of the Board and all other appropriate officials of the District are hereby authorized and directed to execute such other agreements, documents and certificates as may be necessary to effect the purposes of this resolution and the financing herein authorized.

Section 3.

This Resolution shall take effect upon its adoption by this Board.

* * * * *

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted by the Governing Board of the Pajaro Valley Unified School District at a meeting thereof on the 9th of December, 2009, by the following vote of the members thereof:

AYES:

NOES:

ABSENT:

By _____

Print Name _____

Title _____

Attest:

By _____
Secretary of the Board

EXHIBIT I

SECURITY DOCUMENTS

The Lessee hereby represents and warrants that on Exhibit J attached hereto and by this reference made a part hereof, the Lessee has listed each item of the Leased Property:

(i) with the requisite specificity and detail under applicable State law; and

(ii) under the appropriate heading (or headings where applicable) describing the applicable property type (or types where applicable) characterizing such item of Leased Property under applicable State law;

for purposes of fully and completely perfecting under applicable State law the [Bank's] [Lessor's] security interest granted hereunder in each such item, based upon how the Lessee will install and utilize such item; and the Lessee hereby covenants and warrants that it will not change the method of installation or use of any such item of Leased Property in such a way that would require such item to have been described differently or listed under any other property type in order to fully and completely perfect the [Bank's] [Lessor's] security interest therein under applicable State law

EXHIBIT J

**PROPERTY DESCRIPTION AND TYPE(S)
FOR PURPOSES OF PERFECTING SECURITY INTERESTS
THEREIN UNDER STATE LAW**

Equipment or other Personal Property: None

Rolling Stock: None

Fixtures: None

Real Property: Property Description Attached

EXHIBIT K

TITLE INSURANCE

[TO BE ATTACHED]
[IF APPLICABLE]

EXHIBIT L

FORM 8038

Information Return for Tax-Exempt Governmental Obligations

► Under Internal Revenue Code section 149(e)
► See separate instructions.

Caution: If the issue price is under \$100,000, use Form 8038-GC.

OMB No. 1545-0720

Part I Reporting Authority		If Amended Return, check here <input type="checkbox"/>	
1 Issuer's name Pajaro Valley Unified School District	2 Issuer's employer identification number 77 0375541		
3 Number and street (or P.O. box if mail is not delivered to street address) 294 Green Valley Road	Room/suite ----	4 Report number 3 2010 - 1	6 Date of issue 01/04/10
5 City, town, or post office, state, and ZIP code Watsonville, California 95076		8 CUSIP number None	
7 Name of issue \$1,415,000 Lease Purchase Agreement		10 Telephone number of officer or legal representative (831) 786-2140	
9 Name and title of officer or legal representative whom the IRS may call for more information Mary Hart - Associate Superintendent of Business Services			

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule	
11 <input checked="" type="checkbox"/> Education	11 1,415,000
12 <input type="checkbox"/> Health and hospital	12 0
13 <input type="checkbox"/> Transportation	13 0
14 <input type="checkbox"/> Public safety	14 0
15 <input type="checkbox"/> Environment (including sewage bonds)	15 0
16 <input type="checkbox"/> Housing	16 0
17 <input type="checkbox"/> Utilities	17 0
18 <input type="checkbox"/> Other. Describe ►	18 0
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box <input checked="" type="checkbox"/>	

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.				
(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21 01/15/30	\$ 1,415,000	\$ N/A	11.612 years	4.04 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)	
22 Proceeds used for accrued interest	22 0
23 Issue price of entire issue (enter amount from line 21, column (b))	23 1,415,000
24 Proceeds used for bond issuance costs (including underwriters' discount)	24 10,000
25 Proceeds used for credit enhancement	25 0
26 Proceeds allocated to reasonably required reserve or replacement fund	26 0
27 Proceeds used to currently refund prior issues	27 1,405,000
28 Proceeds used to advance refund prior issues	28 0
29 Total (add lines 24 through 28)	29 1,415,000
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30 0

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)	
31 Enter the remaining weighted average maturity of the bonds to be currently refunded	13.2593 years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	N/A years
33 Enter the last date on which the refunded bonds will be called	01/04/10
34 Enter the date(s) the refunded bonds were issued	08/02/02

Part VI Miscellaneous	
35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35 N/A
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a N/A
b Enter the final maturity date of the guaranteed investment contract	N/A
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a N/A
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the name of the issuer N/A and the date of the issue N/A	
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(iii) (small issuer exception), check box	<input checked="" type="checkbox"/>
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box	<input type="checkbox"/>
40 If the issuer has identified a hedge, check box	<input type="checkbox"/>

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Sign
Here

Signature of issuer's authorized representative

Date

Type or print name and title

SCHEDULE "A"

REFUNDING SCHEDULE

Description of Leased Property	Name and Address of Prior Lessor	Date of Prior Lease	Original Amount of Principal of Prior Lease	Amount of Principal Currently Accrued Outstanding Under Prior Lease	Interest to be Paid at Redemption	Total Amount to be Paid at Redemption	Amount of Draw Under This Lease to be Used For Redemption	Estimated Date Scheduled for Redemption
2350 East Lake Avenue	N/A - Publicly sold bond issue	8-2-02	\$13,000,000.00	\$1,405,000.00		\$1,405,000.00	\$1,405,000.00	1-4-10

Watsonville, CA 95076

TOTALS for Property Being Refinanced

NEW EQUIPMENT PURCHASES:

Nature of Equipment	Name and Address of Vendor	Delivery Date	Purchase Price	Total Amount to be Paid at Purchase
---------------------	----------------------------	---------------	----------------	-------------------------------------

TOTALS for New Equipment Purchases

Set up Fee:

\$10,000.00

GRAND TOTAL TO BE FINANCED

\$1,415,000.00