



Peralta Community College District

Final Report

Other Post Employment Benefits Program

June 28, 2011



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A Division of Zions First National Bank

Table of Contents

Executive Summary

Other Post Employment Bond Transactions	2
The First Bond Transaction	2
The Second Bond Transaction	8
The Third Bond Transaction	11
SWAPS	14
Retirement Board and Revocable Trust	21
Investment Manager and Investments	23
Recommendations	26
Appendices	31
A. Validation Action	
B. 2005 Board of Trustee Resolutions	
C. OPEB Financing Timeline	
D. Definitions	
E. 2009 Board of Trustee Resolutions	
F. Swap Financial Swap Basics	
G. Retiree Health Benefit Program Fund Investment Policy	



Other Post Employment Bond Transactions

Executive Summary

KNN Public Finance was retained by the Peralta Community College to analyze the District's Other Post Employment Benefits Program (OPEB) and to provide the Chancellor with a summary report and recommendations.

With the adoption of GASB 45, public agencies were required to report their Other Post Employment Benefits which primarily consists of post-retirement health insurance. As determined by the 2005 actuarial study, Peralta CCD's liability was reported as \$133.8 million. As a way to manage this liability, Peralta CCD decided to finance this liability through the issuance of taxable OPEB bonds in December 2005. There were two series of bonds issued: one series was current interest bonds and the second series was 6 terms of convertible capital appreciation bonds, the B-1 to B-6 tranches (CARS). These six tranches of term bonds convert at different dates into variable rate securities called Auction Rate Securities, currently a non-performing security.

In conjunction with the 2005 financing, the District entered into swap transactions in 2006. The Deutsche Bank Constant Maturity Swaps are now terminated. The Morgan Stanley swaps were forward starting swaps and are still outstanding.

As part the OPEB program, the District set up a revocable trust for the bond proceeds managed by Lehman Brothers asset arm, Neuberger Berman. The District had created an investment policy for the Retiree Health Benefit Program Fund in 2005. After the Lehman bankruptcy, Neuberger Berman became an independent advisor and has remained the investment manager of the trust.

In 2006 and 2009 the District restructured the 2005 OPEB bonds. For the 2006 transaction, three short maturities of current interest bonds were restructured to mature in 2049. In the 2009 transaction, two short maturities of current interest bonds were restructured to mature in 2011 to 2015. In addition, the first series of term convertible capital appreciation bonds (B-1) was restructured as current interest bonds. The B-1 swap associated with the B-1 tranches of securities was not terminated. All of these transactions increased overall debt service to the program. All of the Morgan Stanley swaps are still outstanding. Since the B-1 swap was not terminated during the 2009 restructuring, it has passed its forward starting date and become effective, and the District is making payments to Morgan Stanley.

With the objective to develop and implement a conservative plan of finance for the District's management of the OPEB program and bonds, KNN has three primary recommendations.

- To provide general fund flexibility and a more balanced debt service schedule, we recommend that the District restructure the 2009 current interest bonds to smooth out the debt service acceleration.
- To manage the swap costs and risk, we recommend that the District terminate the B-1 swap with available District funds or through the restructuring financing. We also recommend termination of the remaining five (B-2 through B-6) swaps when there is a favorable market.
- Finally, as an integral part of the management of the OPEB program costs and risk, we recommend that the District commence analysis on options to restructure the Auction Rate Securities that are no longer a viable security.

The First Bond Transaction

\$153,749,832.25

**Peralta Community College District
Alameda County, California
Taxable 2005 Limited Obligation
OPEB (Other Post-Employment Benefit) Bonds**

Priced:	December 19, 2005
Closed:	December 28, 2005
Ratings:	Standard and Poor's AAA FGIC Insured Underlying Rating A+
Underwriters:	Lehman Brothers Grigsby and Associates, Inc.
Underwriter Counsel:	Lofton & Jennings
Financial Advisor:	The Pineapple Group, LLC Dale Scott & Company, Inc.
Bond Counsel:	Jones Hall
Trustee:	Deutsche Bank National Trust Company
Auction Agent:	Deutsche Bank Trust Company
Actuarial Consultant:	Bartel Associates, LLC
Investment Manager:	Lehman Brothers
Investment Trustee:	Union Bank

Structure: \$20,015,000.00 2005 Series A (Standard Bonds) (Current Interest Bonds)

Maturity (August 1)	Principal Amount	Interest Rate	Price
2006	\$1,725,000	4.71%	100
2007	\$3,180,000	4.82%	100
2008	\$4,110,000	4.87%	100
2009	\$5,340,000	4.91%	100
2010	\$5,660,000	4.94%	100

\$133,734,832.25 (Convertible Auction Rate Securities) (CARS) Price: 100

Series (August 5)	Maturity Date	Initial Principal Amount	Accreted Value @ Full Value	Initial Rate	Accretion Date Interest
2005 B-1	2015	\$27,090,742.00	\$ 33,950,000	4.964%	2010
2005 B-2	2020	\$23,633,292.50	\$ 38,450,000	5.133%	2015
2005 B-3	2025	\$19,866,112.75	\$ 43,175,000	5.387%	2020
2005 B-4	2031	\$20,025,603.00	\$ 57,525,000	5.516%	2025
2005 B-5	2039	\$21,614,328.50	\$ 86,650,000	5.516%	2031
2005 B-6	2049	\$21,604,753.50	\$134,475,000	5.516%	2039

Redemption Provisions: Standard Bonds are subject to optional redemption prior to their maturity.
 CARS are non-callable until Accretion Date. CARS are subject to optional redemption on the Initial Auction Date and thereafter.

Sinking Fund Redemption: CARS are subject to mandatory redemption by the District prior to their stated maturity after full Accretion.

Series B-1

Redemption Date (August 5)	Sinking Fund Payment
2011	\$6,075,000
2012	\$6,475,000
2013	\$7,175,000
2014	\$7,725,000
2015	\$6,500,000

Series B-2

Redemption Date (August 5)	Sinking Fund Payment
2016	\$6,875,000
2017	\$7,325,000
2018	\$8,125,000
2019	\$8,750,000
2020	\$7,375,000

Series B-3

Redemption Date (August 5)	Sinking Fund Payment
2021	\$7,800,000
2022	\$8,325,000
2023	\$9,200,000
2024	\$9,925,000
2025	\$7,925,000

Series B-4

Redemption Date (August 5)	Sinking Fund Payment
2026	\$ 8,325,000
2027	\$ 8,850,000
2028	\$ 9,875,000
2029	\$11,600,000
2030	\$ 8,225,000

Series B-5

Redemption Date (August 5)	Sinking Fund Payment
2032	\$ 8,550,000
2033	\$ 8,975,000
2034	\$10,255,000
2035	\$10,850,000
2036	\$12,100,000
2037	\$13,000,000
2038	\$14,275,000
2039	\$ 8,675,000

Series B-6

Redemption Date (August 5)	Sinking Fund Payment
2040	\$ 8,825,000
2041	\$ 9,100,000
2042	\$10,650,000
2043	\$11,150,000
2044	\$12,750,000
2045	\$13,525,000
2046	\$15,125,000
2047	\$16,400,000
2048	\$17,650,000
2049	\$19,300,000

Sources and Uses

Sources of Funds:	
Par Amount of the Series 2005 OPEB Bonds	\$153,749,832.25
Total Estimated Sources	<u>\$153,749,832.25</u>
Uses of Funds:	
Refunding of Retiree Health Benefit Costs	\$150,000,000.00
Costs of Issuance	\$ 2,767,002.92
Underwriters' Discount	<u>\$ 982,829.33</u>
Total Estimated Uses of Funds	<u>\$153,749,832.25</u>

Cost of Issuance

Bond Counsel	Jones Hall	\$ 154,450.00
Financial Advisor	Dale Scott	\$ 189,890.00
Financial Advisor	Pineapple Group	\$ 104,209.50
Trustee	Deutsche	\$ 4,000.00
Trustee	Administrative	\$ 500.00
Rating Agency	Standard & Poor's	\$ 75,158.42
Actuarial	Bartel Associates	
Total Cost of Issuance		\$ 528,207.92
Bond Insurance	FGIC	\$2,238,795.05
Underwriter's Discount	Lehman/Grigsby & Associates	\$ 982,829.33

The 2005 Other Post Employment Benefit Bonds

With the adoption of Government Accounting Standards Board (GASB) 45 in June 2004, government agencies had to, for the first time, provide a financial accounting of Other Post Employment Benefits (OPEB) offered to their employees, primarily health care insurance benefits, as they do for pension benefits. GASB 45 required actuarial valuations of OPEB, following GAAP principals and reporting of these liabilities in financial statements. The intent was to provide greater transparency to the costs, funding status and sustainability of a benefits program. Implementation of the reporting requirements began December 15, 2006, in three phases depending on the size of an agency's revenues. The Peralta Community College District implemented these requirements in their financial report starting in fiscal year 2007-2008. The District's OPEB liability as reported in its June 2005 audit was estimated at \$135.9 million based on an actuarial report completed in November 2005. The District's actuarial studies are available through office of the Vice Chancellor of Finance and Administration.

Early in 2005, Peralta Community College District staff began evaluating a proposal for the District to pre-fund its unfunded Other Post Employment Benefits liability as an alternative to just making annual pay-go payments and as a way to better manage its OPEB expense/liability.

By 2005, very few public agencies had issued bonds to finance Other Post Employment Benefits liabilities. Similar to a pension obligation bond issuance (POB), an OPEB financing requires the issuance of taxable bonds to extinguish some or all of an agency's OPEB unfunded liability, replacing the obligation to make the UAAL portion of an agency's actuarially determined Annual Required Contribution (ARC) with the obligation to make debt service payments to investors. Bond proceeds are deposited in a trust with the intent that the principal and investment earnings are used to make payments to beneficiaries, or to reimburse the agency's general fund for such payments. Some financing structures, such as Peralta's, also provided that the corpus of the trust, plus investment earnings could be used to pay debt service or reimburse the issuer for debt service payments. Bartel Associates, LLC was retained in 2005 to complete an OPEB actuarial study, as required by GASB 45, to determine the District's exact liability. A draft report was provided to the District in November 2005 and submitted to the Board in December 2005.

Prior to 2005, the District provided lifetime health care benefits to qualifying employees. The program was capped in July 2004, but there remained a significant number of past and current employees and families that remained qualified for lifetime health benefits. According to the 2005 actuarial study by Bartel Associates, the District's OPEB UAAL, assuming a 7% discount rate, was \$103.2 million and the net present value of those benefits was estimated to be \$133.8 million. On a pay-as-you-go basis, it was estimated that the District's annual OPEB obligation would increase from \$5.2 million in 2006 to \$10.2 million by 2016. The District, in coordination with its financial advisors and other team members began the process for the issuance of \$150 million bonds to address the District's OPEB liability.

District staff, the District's two financial advisors (Dale Scott & Company and Pineapple Group) and bond counsel (Jones Hall) presented the idea of an OPEB financing to the District's Audit and Finance committee in May 2005. This was presented as a strategic alternative to provide a viable economic solution to current and future cash flow "challenges" to fund the OPEB liability. At the July 14, 2005, Audit and Finance meeting, District staff, the two financial advisors and bond counsel proposed and explained the recommendation to initiate a Superior Court validation process for the OPEB bond financing. This was to ensure that the creation of this debt as a general fund obligation qualified as an "obligation as imposed by law" under the State Constitutional debt limit.

On July 28, 2005, the Board adopted a resolution that authorized the issuance of a not-to-exceed amount of \$250,000,000 in OPEB bonds and authorized Jones Hall to institute a judicial validation process to determine the validity of the bonds. The validation action was completed on November 7, 2009. Please see Appendix A for the Validation Action. In addition the District Board approved the retention of Dale Scott & Company and the Pineapple Group as financial advisors, Jones Hall as bond counsel, and US Bank as trustee with such fees being contingent on the sale of the bonds. The resolution also gave direction, upon conclusion of the validation, for the selection of an underwriting firm.

Since this was to be negotiated sale, the District solicited proposals and conducted interviews with a number of investment banking/underwriting firms. The finalists included Bear Stearns, Goldman Sachs and Lehman Brothers. Lehman Brothers was selected as the senior underwriter in November 2005. At some point, Grigsby & Associates was added to the underwriting team in the role of co-manager. In preparation for the investment of the bond proceeds, the District conducted nine interviews for investment managers including PIMCO, JP Morgan, Bear Stearns, Lehman Brothers, and Bank of America. Lehman Brothers was chosen to manage the funds through its asset management company, Neuberger Berman.. Deutsche Bank was selected as trustee and auction agent. Union Bank was selected as the investment fund trustee.

In November 2005, the District, its financial advisors, and bond counsel attended a rating agency meeting with Standard and Poor's in New York City. The bonds were not rated by Moody's or Fitch. The bonds were rated A+ by Standard and Poor's.

On December 3, 2005, there was a Board workshop and presentation on an OPEB financing for the purpose of updating the Board on the District's OPEB program and bond financing. On December 13, 2005, the Board authorized the issuance of a not-to-exceed \$154,000,000 OPEB bonds with Lehman Brothers as underwriter as well as authorizing the Preliminary Official Statement and Indenture of Trust with Deutsche Bank. Please see Appendix B for the July and December 2005 resolutions.

One of the decisions the underwriting team had to make was whether to insure the OPEB bonds. Insuring bonds would secure a triple A rating for the bonds and provide lower interest rates. This was a competitive process with bid parameters sent to three to five firms to determine the lowest cost for bond insurance. The use of bond insurance is determined by an economic break-even analysis that proves the cost of insurance lowers interest rates by enough to justify buying the insurance. The cost to insure the bonds was \$2.4 million dollars and was financed in the bond issue as part of the cost of issuance. Because the bonds were rated AAA with an underlying A+, a lower interest rate was secured. FGIC is no longer in the insurance business so the current OPEB bonds are rated as A+ reflecting the District's rating for this type of bond.

To minimize the initial impact of the bond debt service on the District's general fund, the bond structure of the OPEB bonds was designed to defer the payment of principal to the longer maturities. The financing was set up as seven series bonds. The first series was five maturities of "standard" fixed rate bonds (current interest bonds) that matured from August 2006 to August 2010 with principal repayment accelerating annually. The current interest bonds were subject to an optional redemption.

The second series consisted of six term maturities (tranches B-1 to B-6) of bonds that were structured as non-callable Capital Appreciation Bonds (CABs) that converted into variable rate bonds specific dates.

The OPEB bonds issued as non-callable convertible capital appreciation bonds converted to variable rate bonds called Auction Rate Securities (ARS or CARS), which rely heavily on the availability of bond insurance and broker dealers for liquidity. Because CABs accrete interest, this structure allowed the District to avoid debt service payments on these bonds until the conversion date. Upon conversion,

accrued interest and principal would be due. The trade off however was that the CABs priced at higher interest rates than traditional fixed rate current interest bonds would have priced, making this a more costly structure over the life of the bonds.

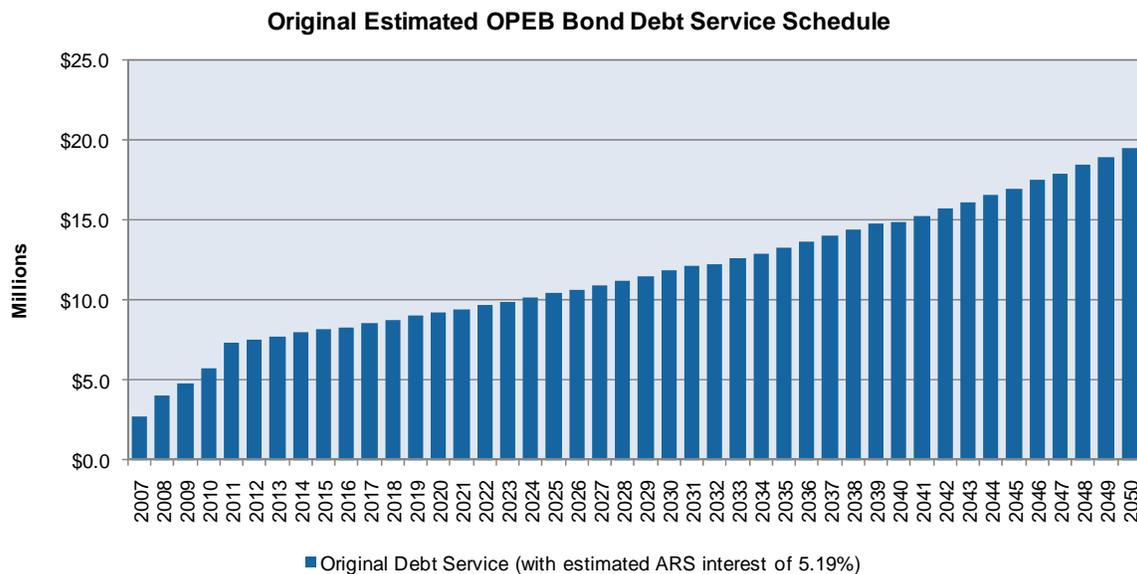
Adding to the complexity of the bond structure, the District executed forward starting fixed payer interest rate swaps (described in more detail below) later in 2006 to mitigate the variable interest rate exposure on the Auction Rate Bonds to a fixed rate of interest during the conversion period.

In lieu of funding a debt service reserve fund, the District covenanted to escrow the full debt service payment of principal and interest due for maturing bonds in May prior to the August maturity date of the bonds. (For the current interest bonds maturing August 5, 2006, the entire principal and interest debt service was due to the trustee by May 1, 2006.) The substitution of a prepayment escrow for a reserve fund had been used in financings for pension obligation bonds. Under the indenture, debt service was paid by the general fund and the trustee would reimburse the District for the health care benefits from the investment trust.

The Trustee established and administers a separate fund (Rate Stabilization Fund). The District has the option to deposit funds from any legal sources of available funds. The Trustee disperses funds as described in the Indenture. This is an unrestricted fund of the District and not pledged to the bonds.

The bonds were priced on December 19th and closed on December 28, 2005. Lehman bought the first maturity of bonds, maturing in 2006. There was institutional interest and participation in the bonds and some entire maturities were sold to a single investor.

The District borrowed a total par amount of \$153,749,832.25 in current interest bonds and capital appreciation bonds that mature for a total repayment of \$512,310,071 in debt service.*



Please see Appendix C for Bond Definitions and D for a Transaction Time.

*Assumes 5.19% ARS interest rate.

The Second Bond Transaction

First Amendment to Indenture To Trust Supplement to Official Statement

**Dated as of October 25, 2006
Relating to**

**\$153,749,832.25
Peralta Community College District
Alameda County, California
Taxable 2005 Limited Obligation
OPEB (Other Post-Employment Benefit) Bonds**

Dated:	October 25, 2006
Ratings:	Standard and Poor's AAA FGIC Insured Underlying A+
Underwriters:	Lehman Brothers
Underwriter Counsel:	Lofton & Jennings.
Financial Advisor:	The Pineapple Group, LLC Dale Scott & Company, Inc.
Bond Counsel:	Jones Hall
Trustee:	Deutsche Bank National Trust Company
Structure:	\$20,015,000.00 2005 Series A

Maturity (August 1)	Principal Amount	Interest Rate	Price
2009	\$5,340,000	4.91%	100
2010	\$5,660,000	4.94%	100

Maturity Date	Initial Principal Amount	Accreted Value @ Full Value	Initial Interest	Accretion Date Interest
2049	\$8,880,000	\$10,688,043.77	6.25%	August 5, 2009

Cost of Issuance		
Bond Counsel	Jones Hall	\$ 35,000.00
Financial Advisor	Dale Scott	\$ 10,000.00
Financial Advisor	Pineapple Group	\$ 10,000.00
Other		
Total Cost of Issuance		<u>\$ 55,000.00*</u>

*Estimated

Redemption Provisions: Standard Bonds are subject to optional redemption prior to their maturity.

Sinking Fund Redemption: The 2049 bonds are subject to mandatory redemption by the District prior to their stated maturity after full Accretion.

Redemption (August 5)	Sinking Fund Account	Redemption (August 5)	Sinking Fund Account
2010	\$ 60,182.43	2030	\$216,649.35
2011	\$ 66,198.47	2031	\$228,685.62
2012	\$ 72,216.51	2032	\$240,721.71
2013	\$ 72,216.51	2033	\$258,775.83
2014	\$ 78,234.55	2034	\$276,829.96
2015	\$ 84,252.60	2035	\$294,884.09
2016	\$ 90,270.64	2036	\$312,938.22
2017	\$ 96,288.68	2037	\$330,992.35
2018	\$102,306.73	2038	\$355,064.52
2019	\$108,324.77	2039	\$379,139.69
2020	\$114,342.77	2040	\$403,208.83
2021	\$120,360.85	2041	\$427,281.03
2022	\$132,396.94	2042	\$457,371.46
2023	\$138,414.98	2043	\$487,461.46
2024	\$150,451.07	2044	\$517,551.67
2025	\$156,469.11	2045	\$547,641.88
2026	\$168,505.19	2046	\$583,750.14
2027	\$180,541.28	2047	\$619,858.69
2028	\$186,559.32	2048	\$661,984.69
2029	\$204,613.45	2049	\$704,110.99

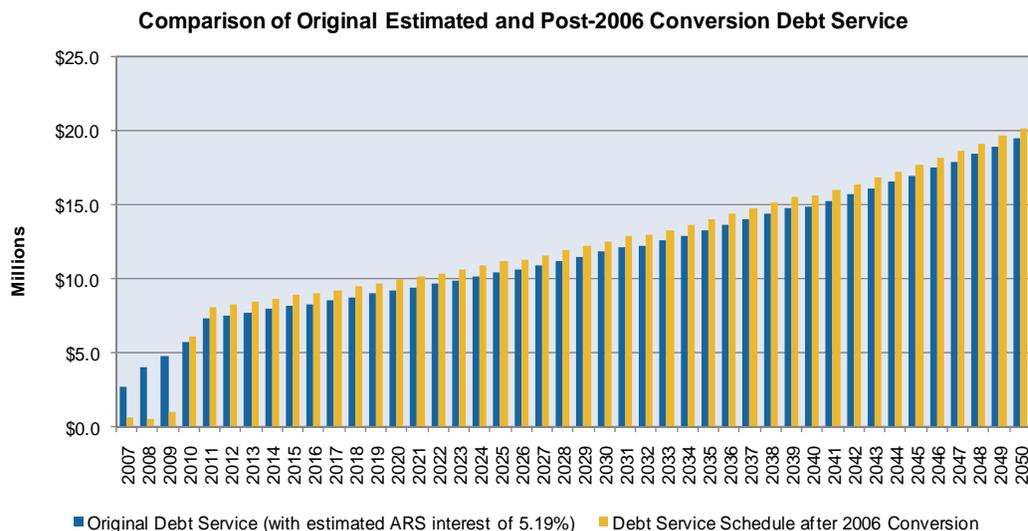
2006 Restructuring of the 2005 Other Post Employment Benefit Bonds Amendment to the 2005 Documents

In 2006, the District restructured the 2005 bonds. This process started in the spring of 2006 and the restructuring eliminated existing debt service on the current interest bonds due in August 2006 through August 2009. This was not an issuance of new bonds, but a First Amendment to the Indenture of Trust between the District and Deutsche Bank as trustee dated October 25, 2006. The Indenture allowed such an amendment since there was one holder of bonds of record. As noted in the Amendment “The District originally intended that no Bonds would mature prior to August 2009.” Please see Appendix E for the 2009 Bond Resolutions.

In August 2006, the District entered into an Amended and Restated Bond Modification Agreement with Lehman Brothers as owners of the 2006, 2007, and 2008 bonds. The District also entered into a Waiver agreement with Lehman that waived the August 1, 2006 payment date to November 1, 2006 so the District did not have to make the August 2006 principal and interest payment. With Lehman being the sole owner of record of the three maturities, the District bought the bonds from Lehman, except for \$135,000 of the bonds maturing August 2008.

Lehman replaced the fixed rated current interest bonds with convertible capital appreciation bonds. Lehman bought a total of \$8,880,000 in aggregate principal of convertible capital appreciation bonds which represented \$9,042,000 of the original par value. The new bonds were capital appreciation bonds until August 5, 2009, and then they converted to a current interest bond with a 6.25% coupon and a final maturity of 2049. The fully accreted value of the bonds was \$10,688,043.77.

These bonds are not insured. Since this was a first amendment to the indenture of Trust, there is no official statement. Documents were filed with the municipal repositories and these bonds are considered to under the original documents of the 2005 bond issue. This transaction increased the overall debt service by \$19.7 million dollars. Costs of Issuance were limited to bond counsel fees and financial advisory fees.



The Third Bond Transaction

\$48,725,000

**Peralta Community College District
2009 Taxable OPEB
(Other Post-Employment Benefit)
Refunding Bonds**

Dated:	February 5, 2009
Closed:	February 19, 2009
Ratings:	Standard and Poor's A+
Underwriters:	Stone and Youngberg, LLC
Underwriter Counsel:	Edwards Angell Palmer & Dodge LLP, New York
Financial Advisor:	The Pineapple Group, LLC Dale Scott & Company, Inc.
Bond Counsel:	Jones Hall
Trustee:	Deutsche Bank National Trust Company
Verification Agent:	Causey, Demgen & Moore
Structure:	\$48,725,000 Fixed Rate Refunding Bonds

\$22, 85,000 Serial Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Price
2010	\$3,660,000	4.415%	100%
2011	\$4,785,000	4.870%	100
2012	\$6,120,000	5.40%	100
2013	\$7,720,000	5.773%	100

\$25,440,000 Term Bonds

Maturity (November 1)	Principal Amount	Interest Rate	Price
2015	\$26,440,000	6.423%	100%

Mandatory Sinking Fund

Redemption Date (November 1, 2015)	Sinking Fund Payment
2014	\$ 9,630,000
2015	\$16,810,000

Sources and Uses

Sources of Funds:	
Par Amount of the Bonds	\$48,725,000.00
Total Estimated Sources	<u>\$48,725,000.00</u>
Uses of Funds:	
Refunding of Refunded Bonds	\$43,176,493.96
Reserve Fund	\$ 4,872,500.00
Costs of Issuance	\$ 339,803.54
Underwriters' Discount	<u>\$ 336,202.50</u>
Total Estimated Uses of Funds	<u>\$48,725,000.00</u>

Cost of Issuance

Bond Counsel	Jones Hall	\$ 95,968.00
Financial Advisor	Dale Scott	\$114,813.73
Financial Advisor	Pineapple Group	\$ 70,000.00
Trustee	Deutsche	\$ 750.00
Trustee Legal	Greenberg Traurig	\$ 3,300.00
Verification Agent	Causey Demgen & Moore	\$ 4,000.00
Rating Agency	Standard & Poor's	\$ 17,000.00
Rating Agency	Moody's	\$ 18,450.00
Administrative Fee	Peralta CCD	<u>\$ 15,521.81</u>
Total Cost of Issuance		\$339,803.54
Underwriter's Discount	Stone & Youngberg	\$336,202.50

2009 Restructuring of the 2005 Other Post Employment Benefit Bonds

In late 2008, the District decided to restructure the outstanding 2005 current interest bonds maturing August 1, 2009 and 2010 and, at the same time, restructure the first tranche (B-1) of the 2005 convertible capital appreciation bonds. The Board of Trustees approved the resolution to refund and restructure the outstanding current interest bonds and the B-1 tranche on December 8, 2008. Please see Appendix E.

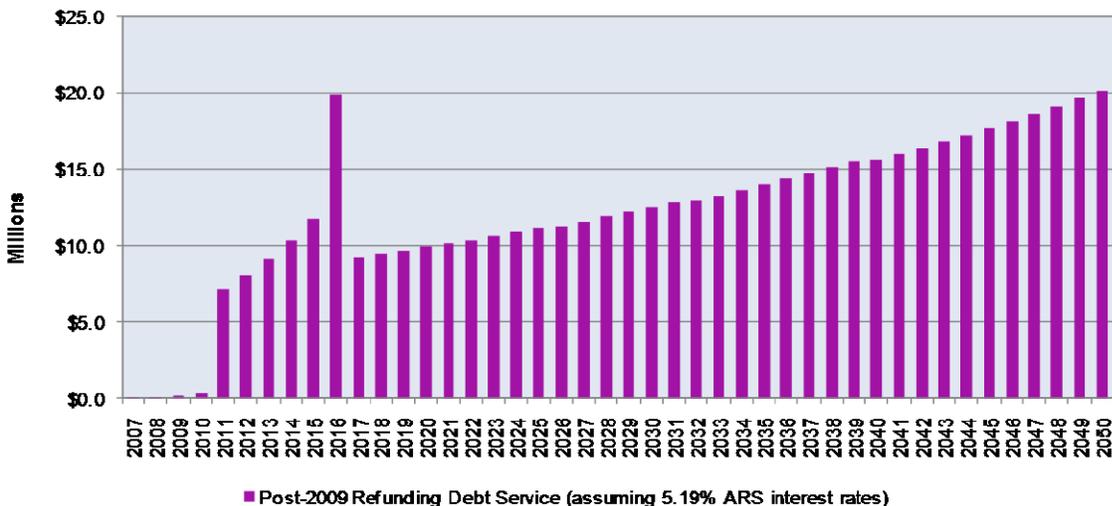
The plan was to restructure the B-1 tranche of the 2005 Bonds, which consisted of a 2015 term bond that would convert into Auction Rate Securities (ARS) on August 5, 2010. ARS ceased to be a viable variable rate security during the 2008 credit crises, due to the failure of the bond insurers and broker dealers not supporting the market. The plan was to restructure as fixed rate bonds the then still accreting capital appreciation bonds. In addition, the \$5,340,000 current interest bonds maturing in August 1, 2009, and \$5,660,000 current interest bonds maturing in August 1, 2010, were restructured to reconfigure principal and interest payments into the November 1, 2012, to November 1, 2015, maturities, further deferring debt service.

The 2009 and 2010 current interest bonds were purchased by the District and the B-1 series of capital appreciation bonds were purchased from a single investor for the accreted value plus a “transaction fee”. The new structure eliminated all principal and interest payments in the 2009. The 2011 maturity was reduced by \$2,000,000 leaving \$3,660,000 in the 2011 maturity. Together both maturities were reduced in par amount by \$7,340,000. The principal and interest payment date was changed from August 5 to November 1st starting with the 2010 maturity.

The B-1 tranche of convertible capital appreciation bonds had an original par amount of \$27,090,742 which would have converted to variable rate securities on August 5, 2010. The fully accreted value on August 5, 2010, would have been \$33,950,000. The new structure created current interest serial bonds from 2010 to 2013 and a term bond in November 1, 2015 of \$26,440,000. The 2015 term bond had a sinking fund starting in 2014. A reserve fund was established as part of the transaction for \$4,872,500. This restructuring added an estimated \$12.7 million in par amount to the outstanding OPEB bond debt service.

The bonds were rated A+ from Standard and Poor’s. The cost of issuance report indicates that the District also applied to Moody’s for a rating.

Post-2009 Refunding Estimated Debt Service





SWAPS

**Peralta Community College District &
Deutsche Bank AG
Deferred Payment Constant Maturity SWAP**

Notional Amounts: \$248,880,246.00, single agreement
 Trade Date: November 21, 2006
 Effective Date: December 1, 2006
 Termination Date: August 2010, 2015, 2020, 2025, 2031, 2039
 Floating Rate Payer I: One Month USD LIBOR-BBA
 Peralta Community College

Floating rate Payer II: Percent of 10 year LIBOR
 Deutsche Bank AG

Floating Rate Payer II Maturity: 10 years

Floating Rate Payer II Percentage:

OPEB Bond	Notional Amount	Payment Date Payer I&II	Payer II Percentage
B-1	\$30,033,189	August 5, 2010	91.393%
B-2	\$30,608,507	August 5, 2015	88.853%
B-3	\$30,561,424	August 5, 2020	88.124%
B-4	\$37,396,427	August 5, 2025	87.499%
B-5	\$50,286,461	August 5, 2031	86.336%
B-6	\$69,994,238	August 5, 2039	83.602%

Additional Payment: December 1, 2006, USD \$2,000,000

Fees

Consultant	Original Swap	Termination I February 2008	Termination II November 2008
Stone & Youngberg, Swap Consultant	\$300,000.00	\$110,000.00	\$ 50,000.00
Dale Scott & Company, Financial Advisor	\$ 97,500.00	\$ 75,000.00	
Pineapple Group, Financial Advisor	\$ 97,500.00	\$ 75,000.00	\$102,000.00
Jones Hall, Bond Counsel	<u>\$ 75,000.00</u>		
Total	<u>\$570,000.00</u>	<u>\$260,000.00</u>	<u>\$152,000.00</u>

Peralta Community College District and Deutsche Bank AG Deferred Payment Constant Maturity Swap 2006

The Peralta Community College District sold \$153,749,832.25 of Other Post Employment Benefit Bonds (OPEB) on December 19, 2005, and closed the transaction on December 28, 2005, through a negotiated sale with Lehman Brothers as Senior Manager and Grigsby and Associates as a Co-Manager. The majority of the bonds were convertible capital appreciation bonds (CABs or “Zeros”), which accrete interest and thus require no payment of debt service until the accretion date. At the accretion date, these bonds were structured to convert to variable rate securities called auction rate securities (ARS). The District ultimately entered into an interest rate swap agreement to mitigate the interest rate risk of the variable rate securities.

On November 14, 2006, the investment banking firm of Stone and Youngberg made a presentation to the Board of Trustees titled, “Current Market Opportunities for OPEB Bonds.” This presentation was an introduction and explanation of swaps generally and to Constant Maturity Swaps (CMS) in particular, a swap transaction intended to address not only changes in interest rates but also changes in the relationship between short-term and longer-term rates. A single swap agreement for a Constant Maturity Swap was being proposed to the District for the six tranches of the OPEB variable rate bonds (B-1 to B-6). The swap was to mitigate associated risks involved with the bond transaction. Because the yield curve was flat and there was anticipation that long-term interest rates would rise, the District entered into an agreement to pay a short-term rate, one month LIBOR, and receive from Morgan Stanley a longer-term rate the USD-ISDA Swap Rate. All payments were deferred until the accretion date for the capital appreciation bonds and conversion to auction rate securities, the first of which was August 5, 2010.

At this Board meeting that the Board approved the interest rate swap and authorized the District to enter into an interest rate swap “for the purpose of reducing the principal amount of the Bonds as of each Accretion date.

The District entered into a single swap agreement with Deutsche Bank on November 21, 2006, with effective the date of December 1, 2006. In the arrangement, the District paid or received a net amount based on the difference between a percentages of a one-month fixed rate index payable by the District and a percentage of a 10 year fixed rate index payment by the counterparty, Deutsche Bank, multiplied by the notional amount of the swap which does not exceed 65% of the aggregate accreted value of the bonds determined as of the accretion dates. Early termination amounts were determined by the market value of the swap. The District elected for an initial upfront payment of \$2 million to be used as a reserve for possible future payments. To generate an upfront payment, Deutsche bank reduced each percent of the 10 year LIBOR received by 5%. This increased the District’s risk that it would be making a net payment on the final accretion dates.

Five tranches of the Deutsche Deferred Payment Constant Maturity Swap were terminated in February 2008 and the District received a termination payment of \$1.2 million. In November 2008, the final part of the swap was terminated and the District received a payment of \$78,000. All fees were paid as part of the swap transaction by decreasing the percentage of Floating Rate II Option payment by Deutsche Bank.

**Peralta Community College District and Morgan Stanley Capital Services Inc.
Forward Starting Swap**

Notional Amounts: \$394,225,000, six agreements for Series B-1 to B-6
Trade Date: November 28, 2006

Fixed Rates: The District will make fixed rate payments to Morgan Stanley as highlighted below.

OPEB Bond	Notional Amount	Fixed Rate	Effective Date	Termination Date
B-1	\$ 33,950,000	4.90%	August 5, 2010	August 5, 2015
B-2	\$38,450,000	5.158%	August 5, 2015	August 5, 2020
B-3	\$ 43,175,000	5.279%	August 5, 2020	August 5, 2025
B-4	\$ 57,525,000	5.207%	August 5, 2035	August 5, 2031
B-5	\$ 86,650,000	5.055%	August 5, 2031	August 5, 2039
B-6	\$134,475,000	4.935%	August 5, 2039	August 5, 2049

Floating rate Payer: Morgan Stanley will make variable rate payments to the District equal to 1 month LIBOR.

Fees

Consultant	Original Swap
Dale Scott & Company, Financial Advisor	\$35,000.00
Pineapple Group, Financial Advisor	\$35,000.00
Jones Hall, Bond Counsel	\$20,000.00
Standard & Poor's, Rating Agency	<u>\$ 5,000.00</u>
Total	<u>\$95,000.00</u>

The fees were included in the swap transaction and are reflected in a higher fixed rate payable by the District.

Peralta Community College District and Morgan Stanley Capital Services Inc. Forward Starting Swaps

The Morgan Stanley swaps were designed to mitigate interest rate risk on the variable rate portion of the OPEB bonds (i.e. during the conversion period). The swap agreements were contracts between the District and the swap counterparty, Morgan Stanley. Under the swap agreements, the District would receive variable rate payments from the counterparty, which were intended to offset the variable rate payments the District owed to investors. In exchange for the variable rate payments received from the counterparty, the District would pay a pre-determined fixed rate of interest to the counterparty. The net effect was to mitigate the District's variable rate exposure and lock in a "synthetic" fixed rate that was lower than the fixed rate the District would have been able to lock in at the time of issuance.

The District reviewed proposals from several firms about the use of swaps as well as alternative options. Morgan Stanley's swap proposal was selected by the District. On September 26, 2006, the Board of Trustees approved a resolution for the District to move forward on an interest rate swap transaction.

The structure of this swap agreement was six separate agreements – one for each of the variable rate tranches. Each tranche had a set fixed rate as shown below. These were structured as forward starting swaps and therefore no payments were required under the swap agreements until the conversion date of each of the tranches of bonds. The first conversion was August 5, 2010. At that date, the B-1 tranche of capital appreciation bonds would be fully accreted and convert to a variable rate security. The effective date of the swap was structured to be the same as the conversation date for each of the tranches. The District would begin paying a fixed rate and receiving from Morgan Stanley a variable rate, one month Libor, starting on that date.

OPEB Tranche	Notional Amount	Fixed Rate	Effective Date	Termination Date
B-1	\$ 33,950,000	4.90%	August 5, 2010	August 5, 2015
B-2	\$38,450,0000	5.158%	August 5, 2015	August 5, 2020
B-3	\$ 43,175,000	5.279%	August 5, 2020	August 5, 2025
B-4	\$ 57,525,000	5.207%	August 5, 2035	August 5, 2031
B-5	\$ 86,650,000	5.055%	August 5, 2031	August 5, 2039
B-6	\$134,475,000	4.935%	August 5, 2039	August 5, 2049

As market interest rates have declined since the execution of these swaps, the District would be required to make a termination payment to the swap counterparty (Morgan Stanley) if the District chose to terminate the swaps agreements, as discussed further below.



The January 2009 OPEB transaction for \$48,735,000 was executed in anticipation of the mandatory conversion of the B-1 tranche of CABs on August 5, 2010. The Convertible Capital Appreciation Bonds would be fully accreted date and convert into Auction Rate Securities on that date. Under the restructuring, the convertible CABs/variable rate bonds were replaced by current interest fixed rate bonds. At the time of the financing, however, the matching swap was not terminated. Hence, on August 5, 2010, the forward starting swap (the “orphaned” swap) went into effect. Due to the fact that the fixed rate paid by the District on the swap exceeded the floating LIBOR rate received by the District from the counterparty, the District began to incur net swap payments to Morgan Stanley. The District continues to make net payments on this swap as one month LIBOR receipt is considerably lower than the 4.9% fixed rate the District pays.

For example of this payment, on the most recent swap payment date (June 16, 2011, for the most recent payment period), Morgan Stanley paid the District 0.198750% (one month LIBOR) for a total amount of \$7,707.12, and the District paid Morgan Stanley the fixed rate amount of \$161,734.03, for a net amount equal to \$154,173.90. For the B-1 swap, this payment calculation will continue every fifth Thursday up to and including the termination date of August 15, 2015.

As discussed above, the B-1 is an “orphaned” swap as there are no offsetting variable rate bonds as a result of the 2009 restructuring. Thus, the District is paying the net payments to the swap counterparty in addition to the fixed rate bond debt service resulting from the 2009 restructuring. The remaining tranches, B-2 through B-6 are still in the “accretion phase” and those swaps have not yet “started.” The District, through Swap Financial Group, the District’s independent swap consultant, is updated regularly on the market value of the swaps.

Swap Termination

As part of the original swap agreement with Morgan Stanley the District has the right to terminate any or all of the swap agreements at any time at market rates. The table on the following pages reflects the termination levels for each of the swaps as of June 13, 2011.

The swap termination value is affected by changes in long term fixed interest rates. As noted before, the negative values reflect the extremely low current interest rate environment. Rising interest rates would cause the termination values to decrease (i.e. move in the District's favor) while falling interest rates would cause the termination values to become increasingly negative. Given the forward starting nature of these swaps, the termination value is also highly dependent on the "shape" of the yield curve. A "steep" yield curve, characterized by long term rates which are significantly higher than short term rates, will reduce the termination values (i.e. move the termination value in the District's favor). A "flat" yield curve, characterized by a small differential between short-term and long-term interest rates, would work against the District in terms of the termination value. The yield curve is currently at its historically steepest level in over 30 years.

The negative values indicate what the District would have to pay to terminate the swaps in the current market. The actual cost associated with the termination of a swap would be higher than the levels shown as there are additional costs that include execution spread (to Morgan Stanley), advisory fees and on-market certification (to Swap Financial Group) and legal fees.

Bond Series	2005 B-1	2005 B-2	2005 B-3	2005 B-4	2005 B-5	2005 B-6
Trade Date	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006
Effective Date	8/5/2010	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039
Termination Date	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039	8/5/2049
Counterparty	MSCS	MSCS	MSCS	MSCS	MSCS	MSCS
Initial Notional	33,950,000	38,450,000	43,175,000	57,525,000	86,650,000	134,475,000
Peralta Pays	4.900%	5.158%	5.279%	5.207%	5.055%	4.935%
Peralta Receives	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR	1mo LIBOR
Mark-to-Market*	(\$2,940,120)	(\$1,116,334)	(\$357,127)	(\$567,590)	(\$952,101)	(\$1,221,245)

*MTM June 13, 2011, Swap Financial

Please see Appendix F for Swap Financial Swap Basics for an explanation of swaps.



Retirement Board and Revocable Trust

Retirement Board and Revocable Trust

There are several steps that are required when setting up a retirement program, with or without a bond program. Under GASB 45 three pre-funding mechanisms were available. Each provides a way to pre-fund OPEB liabilities through a dedicated trust in which funds are deposited for investment. A decision must be made to set up a revocable or irrevocable trust for the payment of OPEB benefits. For an irrevocable trust, all funds deposited into the trust must remain in the trust and the District can reduce the net OPEB liability in its financial statements. Only once the obligation is fulfilled or if there is a change in national policy, can the monies in the trust can be dispersed to the general fund. Revocable trusts are more flexible with regard to the use of monies in the trust. However under GASB rules deposits in revocable trusts are not allowed to offset the OPEB liability reported in the financial statements or in the calculation of such liability.

The Resolution establishing a retirement board was passed by the Board of Trustees on November 28, 2006. The District elected to create a revocable trust (Retiree Health Benefit Program Fund) in the event there were funds remaining in the trust after the bonds were paid and those could be transferred to the general fund.

As noted in the 2005 resolutions, the District interviewed a number of investment management firms including Goldman Sachs, JP Morgan, PIMCO and Lehman Brothers. Lehman Brothers Asset Management LLC was selected by the District to manage the investments in the trust. Lehman Brothers developed an asset allocation model and Neuberger Berman, a Lehman Brothers Company and asset manager arm of the firm, became the investment manager. The asset allocation was to be comparable to CalPERS, which, at that time in 2005, had a ten year average return of 10.4% and to the Alameda County Employees Retirement Association (ACERA). An investment advisory agreement was signed on December 26th, 2005.

The Retiree Health Benefit Program Fund is revocable and pledged to the bondholders. The trust is designated to reimburse the District general fund for payments of retiree health benefits or the trust can make payment of principal and interest on bonds. Asset allocation was to meet long term cash flow requirements and there was an assumed six percent rate of return with an anticipated 2050 positive ending balance.



Investment Manager and Investments

Investment Manager

As mentioned earlier, the District interviewed several investment management firms. Lehman Brothers Asset Management LLC (Lehman) was selected to manage the District's investment portfolio starting February 1, 2006. Lehman's fee was 40 basis points (.40%) on all assets under management inclusive of separately managed accounts and mutual fund fees. Neuberger Berman, (see below) was the group of professionals managing the District's trust. The District approved the Retiree Health Benefit Program Fund Investment Policy. Please see Appendix G for the Board of Trustee Resolution and Policy.

Neuberger Berman was acquired by Lehman brothers in October 2003 and was the asset management arm of Lehman Brothers Investment Management Division. In September 2008 when Lehman went bankrupt, Lehman planned to sell Neuberger Berman to Bain Capital Partners or Hellman & Friedman through court proceedings. Neuberger's management managed to put together a competitive bid and win the bankruptcy auction, creating a new firm in May 2009 named Neuberger Berman Group LLC.

On April 4th, 2006, Lehman made a detailed presentation to the Audit and Finance Committee about the proposed Peralta OPEB portfolio. The District annually reviewed the management team for overall performance and investment objectives.

Neuberger Berman annual fees are below.

Year	Fee Amount
05-06	\$ 208,391.10
06-07	\$ 299,763.03
07-08	\$ 381,681.47
08-09	\$ 345,847.09
09-10	<u>\$ 361,052.07</u>
Total	<u>\$1,596,734.76</u>

Monthly reports were sent to District staff and the Pineapple Group. Starting in 2006, the Pineapple Group served as "oversight manager" for the Peralta CCD investments and trust. The Board of Trustees approved a contract with Pineapple Group on May 23, 2006. Pineapple Group's responsibilities, as outlined in the June 15, 2006, Audit and Finance Committee meeting included:

- (1) Selection of asset management firm
- (2) Establishment of investment policies
- (3) Selection of "emerging manager"
- (4) Recommendation of measurement index for each asset class
- (5) Analysis of portfolio performance
- (6) CalPers information

The Audit and Finance Committee in March and April of 2007 reviewed a revised contract for the Pineapple Group. At the May 22, 2007, Board of Trustees meeting, the Board approved a contract with the Pineapple Group extending the term for 10 years. The actual contract extension was signed in January 2008 and provided for a five year term.

Investments

According to the District’s investment policy adopted December 13, 2005, the “investment of funds in the Retiree Health Benefit Program Fund will be made in accordance with the investment policy of the District, which is comparable to that adopted by the California Public Employees Retirement System” developed by the Investment Committee, The investment policy was adopted to provide guidance and parameters for the investment managers engaged by the District to invest the Retiree Health Benefit Fund. As noted above, Lehman Asset Management, Neuberger Berman subsidiary was originally selected as the investment manager, and Neuberger Berman Group LLC as an independent firm was selected in 2008. Union Bank serves as trustee to the trust.

The original asset allocation as noted in the Investment Policy was to be rebalanced semi-annually. Below is the initial asset allocation as found in the Investment Policy.

Asset Class	Strategic Target	Tactical Range	Benchmark
Fixed Income	35%	30% - 40%	Lehman Aggregate Index
Large Cap Equity	30%	25% - 35%	S&P 500 Index
International Equity	20%	15% - 25%	MSCI EAFE Index
Small Cap Equity	10%	5% - 15%	Russell 2000 Index
Real Estate	5%	0% - 10%	NAREIT Equity REIT Index

The original investment of bond proceeds was \$150,000,000. Below is a summary of the investment fund through December 2010.

Investment Period	Dollar Investment	Gain/Loss	Retiree Medical Reimbursement	Market Value June 30
Initial Investment January 2005	\$150,000,000			
2005-2006		\$ 474,916		\$150,474,916
2006-2007		\$30,426,011	(\$5,892,200)	\$176,153,680
2007-2008		(\$ 9,963,635)	(\$5,553,368)	\$160,571,117
2008-2009		(\$25,857,550)	(\$5,749,282)	\$123,982,449
2009-2010		\$15,974,763	(\$5,800,000)*	\$144,516,601
2010-2011			(\$5,800,000)**	\$162,288,861***

* Paid in FY 2010-2011 or 2009-2010.

** To be paid in FY 2010-2011.

*** Neuberger Berman report December 30, 2010.



Recommendations

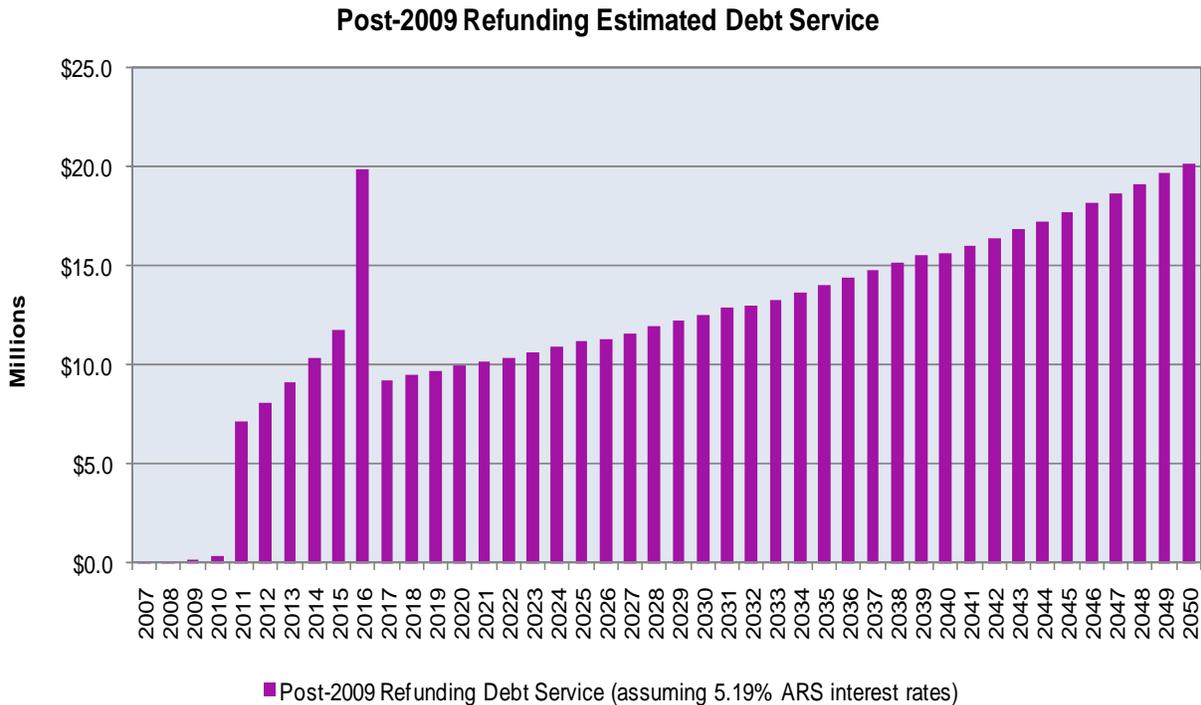
Recommendations

In July, 2010, Peralta Community College District retained KNN Public Finance as an independent financial advisor to provide an analysis of the District’s Other Post Employment Benefits bond program (OPEB). Over the course of several months working with the District and with Swap Financial, the District’s independent swap financial advisor, we established certain criteria and objectives for the program going forward. The primary objective was to develop a conservative, reasonable and viable plan of management of the program. This was to be accomplished through a detailed, quantitative analysis of the entire program from its beginning in 2005. In the course of this analysis, three primary challenges were identified to be immediately addressed by the District. District staff, KNN and Swap Financial made two presentations to the Board. The first presentation was February 15, 2011, and addressed the history of the bond program, issues, and alternative options. The second presentation, on March 29, 2011, focused on recommendations going forward including program financing options and on-going management.

The following summarizes the three primary challenges identified and recommendations for addressing the challenges.

I. Escalating OPEB debt service through November 2015

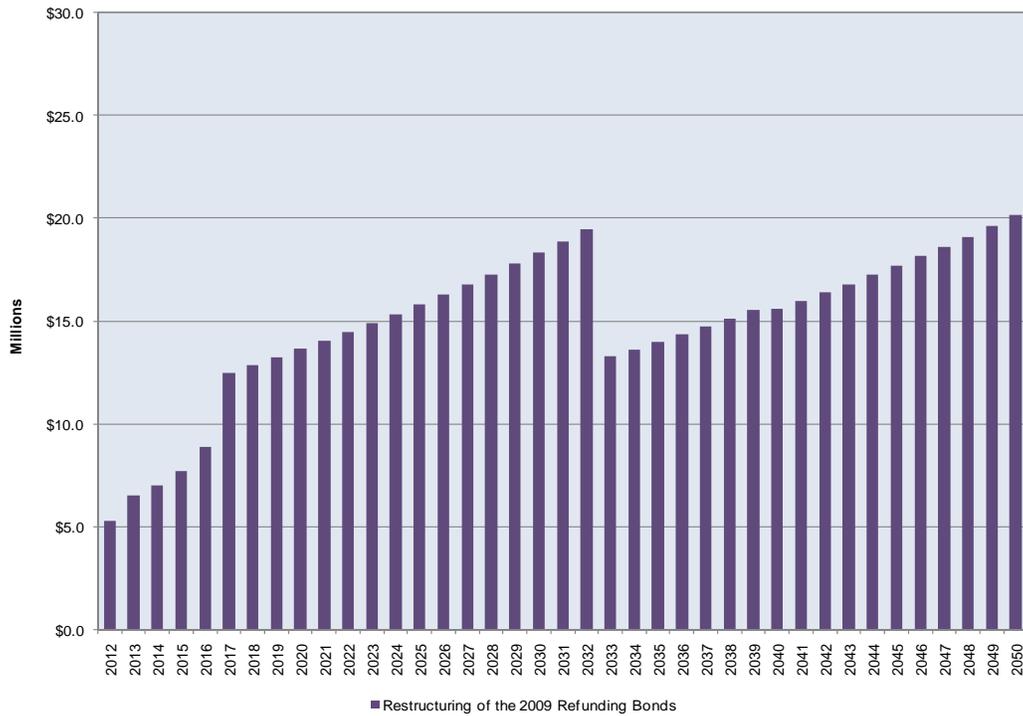
The 2009 refunding and restructuring resulted in rapidly escalating debt service.



To address this issue, KNN and staff have recommended that the District smooth out the current interest bond fixed rate debt service from 2011 to 2015 by extending the maturity of these bonds. Though this will add to the total debt service cost associated with these bonds, this will be spread over the life of the

bonds. There will be minimal debt service reduction in 2011 to 2014 as the District will continue to retire debt in these maturities and the smoothing will not extend beyond twenty years.

Below, please find an estimate of the restructured debt service for the OPEB program.



*Based on market condition of March 11, 2011. Assumptions and estimates subject to change

II. Swaps

In November 2006, the District entered into six forward starting swaps as an offset to the six tranches of convertible CABs/variable rate bonds. Below is a summary of each swap and a current estimate of its value as of June 13, 2011. The swaps add significant complexity to the District's bond program and expose the District to a variety of risks. The negative values indicate what the District would have to pay to terminate the swaps in the current market. Because of the current interest rate climate, the swaps contracts are in the counterparty's favor. There currently is no exchange of money on five of these swaps, B-2 through B-6, as they are forward starting swaps and their effective dates are in the future. The B-1 swap has started and the District is currently paying Morgan Stanley on a 5 week basis.

Bond Series	2005 B-1	2005 B-2	2005 B-3	2005 B-4	2005 B-5	2005 B-6
Trade Date	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006	11/28/2006
Effective Date	8/5/2010	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039
Termination Date	8/5/2015	8/5/2020	8/5/2025	8/5/2031	8/5/2039	8/5/2049
Counterparty	MSCS	MSCS	MSCS	MSCS	MSCS	MSCS
Initial Notional	33,950,000	38,450,000	43,175,000	57,525,000	86,650,000	134,475,000
Peralta Pays	4.900%	5.158%	5.279%	5.207%	5.055%	4.935%
Peralta Receives	1 mo LIBOR	1 mo LIBOR	1 mo LIBOR	1 mo LIBOR	1 mo LIBOR	1 mo LIBOR
Market-to-Market*	(\$2,940,120)	(\$1,116,334)	(\$357,127)	(\$567,590)	(\$952,101)	(\$1,221,245)

Swap Financial has recommended terminating the B-1 swap in conjunction with the restructuring of the OPEB debt. This can be accomplished by using available District funds for a cash termination, or adding the termination par amount to the restructuring. The later approach will be subject to bond counsel review. Terminating this swap provides the District with near term financial relief. Because of the short term of this swap, the termination payment is relatively constant. The swap mark-to-market is not sensitive to changes in the market interest rates (e.g. the mark-to-market will not decrease significantly if the market interest rates increase.)

The recommendation for the B-2 to B-6 swaps is to terminate each swap individually when the mark-to-market gets to zero or an acceptable, designated range (inclusive of transaction costs.) The swap mark-to-market values are sensitive to changes in the market interest rates (e.g. the mark-to-market will decrease significantly if market interest rates increase.) Terminating the swaps will eliminate the requirement to issue the associated floating rate debt in the future and provide greater flexibility to the District to restructure the variable rate debt associated with each Series of bonds at a future date. This is a conservative plan of finance; one appropriate to educational institutions as the Peralta Community College District.

III. Long Term Management Auction Rate Securities

Any long-term management plan for the District's OPEB program must address the issue with the CABs converting into Auction Rate Securities in the future. As noted earlier, Auction Rate Securities failed in 2008 creating a serious problem for many issuers and are no longer a viable security structure.

As originally structured, the OPEB program included six tranches or terms, B-1 to B-6, of Capital Appreciation Bonds that converted to Auction Rate Securities on specific dates. The next tranche of securities is set to convert on August 5, 2015, when the CABs are also fully accreted. Prior to August 15, 2015, the District must have a plan in place to restructure the Auction Rate Securities. This plan need not be decided upon today and will depend on market conditions nearer to the time of the conversion date. The plan thus will take time to develop and will involve quantitative analysis to determine the most efficient short and long term options for the B-2 tranche and for the rest of the tranches which convert in August 2020, 2025, 2031 and 2039.

The District has a number of options that we plan to evaluate for cost and risk. This process has already begun to insure that the District has a conservative plan of finance for the future.



Appendices



Validation Action

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ENDORSED
FILED
ALAMEDA COUNTY
AUG 19 2005

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By Sandra Cole

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15 Attorneys for Plaintiff

16 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
17 IN AND FOR THE COUNTY OF ALAMEDA
18 UNLIMITED CIVIL JURISDICTION

19 PERALTA COMMUNITY COLLEGE DISTRICT,)
20 Plaintiff,)
21 vs.)
22 ALL PERSONS INTERESTED IN THE)
23 MATTER OF THE ISSUANCE AND SALE OF)
24 BONDS FOR THE PURPOSE OF REFUNDING)
25 CERTAIN OBLIGATIONS OWED BY THE)
26 PERALTA COMMUNITY COLLEGE DISTRICT)
27 IN RESPECT OF EMPLOYEE HEALTH CARE)
28 BENEFITS, AND ALL PROCEEDINGS)
LEADING THERETO, INCLUDING THE)
ADOPTION OF A RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE)
OF SUCH BONDS,)
Defendants.)

PG 05 - 228082

COMPLAINT FOR VALIDATION
(§860 et seq. of the
Code of Civil Procedure)

[Fee Exemption:
Govt. Code § 6103]

Attached Documents:
Ex. A Evidence of
Obligation
Ex. B Excerpt from 2005-06
District Budget
Ex. C Resolution
Ex. D Indenture

26 Plaintiff, the Peralta Community College District (the
27 "District"), brings this action against all interested persons
28

1 under §860 et seq. of the Code of Civil Procedure and §53511 of
2 the Government Code and alleges:

3 1. The District is and was at all times mentioned herein a
4 community college district duly organized and existing under the
5 Constitution and laws of the State of California. Plaintiff is a
6 "public agency" authorized to bring this action under §860 of the
7 Code of Civil Procedure and §53511 of the Government Code.

8 2. The governing body of the Plaintiff is the "Board of
9 Trustees" thereof with its principal place of business located at
10 333 East Eighth Street in the City of Oakland, Alameda County,
11 California.

12 3. The District has entered into binding agreements (the
13 "Employee Health Care Agreements") with certain employees,
14 including current and retired employees, under which the District
15 is obligated to pay a defined portion of the premiums for health
16 care insurance covering such employees and certain of such
17 employees' family members. The Employee Health Care Agreements
18 obligate the District to appropriate funds to pay such health care
19 insurance premiums.

20 4. The obligation of the District to pay health care
21 insurance benefits evidenced by the Employee Health Care
22 Agreements (the "Health Benefit Obligations") is an obligation
23 imposed by law and, as such, the District is obligated to satisfy
24 the Health Benefit Obligations from any money available in any
25 fund in the District's treasury. Accordingly, the District's
26 obligation to make payments to fund the Health Benefit Obligations
27 in accordance with the Employee Health Care Agreements is exempt
28 from the debt limitation of Article XVI, Section 18, of the

1 California Constitution.

2 5. The total unfunded liability of the District to pay the
3 Health Benefit Obligations as of January 1, 2004 was approximately
4 \$140,000,000 as evidenced by the actuarial study entitled "Retiree
5 Medical Study" attached hereto as Exhibit A and by this reference
6 incorporated as if fully set forth herein. The amount which the
7 District has budgeted and appropriated to pay the Health Benefit
8 Obligations for the current fiscal year ending June 30, 2006, is
9 \$14,866,020 as evidenced on page 5 of the District fiscal year
10 2005-06 Tentative Budget adopted on June 28, 2005, which Tentative
11 Budget is attached hereto as Exhibit B and by this reference
12 incorporated as if fully set forth herein.

13 6. The District is authorized under §§53570 and 53584 of the
14 Government Code to provide for the refunding of its obligations
15 (which constitute a "revenue bond" within the meaning of §53571 of
16 the Government Code), including the Health Benefit Obligations, by
17 issuing bonds or other evidences of indebtedness and applying the
18 proceeds of such to the retirement of such obligations.

19 7. On July 28, 2005, the Board of Trustees of the
20 District adopted its Resolution No. 05-06-08 entitled
21 "RESOLUTION OF THE BOARD OF TRUSTEES OF THE PERALTA COMMUNITY
22 COLLEGE DISTRICT AUTHORIZING ISSUANCE OF BONDS IN THE
23 AGGREGATE PRINCIPAL AMOUNT OF NOT TO EXCEED \$250,000,000 TO
24 REFINANCE EMPLOYEE HEALTH BENEFIT OBLIGATIONS OF THE
25 DISTRICT" (the "Resolution"). A true and correct copy of the
26 Resolution, as certified by the Clerk of the Board of the
27 District, is attached hereto as Exhibit C and by this
28 reference incorporated as if fully set forth herein.

1 8. The Resolution authorizes the issuance of bonds of the
2 District (the "Bonds") payable from any source of legally
3 available funds of the District, including but not limited to the
4 District's General Fund, under §§53570 and 53584 of the Government
5 Code solely for the purpose of refunding the Health Benefit
6 Obligations and paying financing costs relating thereto, so long
7 as the proceeds of the Bonds are held and invested by the District
8 for such purpose, and such proceeds and the earnings on the
9 investment thereof are applied solely to pay the Health Benefit
10 Obligations of the District as they become due and payable.

11 9. The Resolution authorizes the Bonds to be issued under an
12 Indenture of Trust (the "Indenture of Trust") between the District
13 and U.S. Bank National Association, as trustee (the "Trustee").
14 The form of the Indenture of Trust is attached hereto as Exhibit D
15 and by this reference incorporated as if fully set forth herein.
16 The Bonds will be issued in substantially the forms attached as
17 Appendix A to the Indenture of Trust and by this reference
18 incorporated as if fully set forth herein.

19 10. The Indenture provides that the proceeds from the sale
20 of the Bonds will be deposited with the Trustee, who in turn will
21 apply such proceeds and the earnings on the investment thereof to
22 pay the Health Benefit Obligations of the District as they become
23 due and payable, in accordance with requisitions submitted by the
24 District to the Trustee from time to time.

25 11. The Bonds will be issued in an aggregate principal
26 amount of not to exceed \$250,000,000 and may be issued in one or
27 more series from time to time by the District. Such aggregate
28 principal amount has been determined by the District to be

1 sufficient, together with the earnings on the investment thereof,
2 to pay the Health Benefit Obligations of the District as they
3 become due and payable, plus an amount necessary to pay the costs
4 of issuance of the Bonds, including underwriter's discount
5 relating thereto. The Bonds will bear interest at a fixed or
6 adjustable rate of interest, and will mature not later than forty-
7 five years from their date of issuance.

8 12. Defendants herein are all persons having or claiming to
9 have an interest in the proceedings, including the adoption of the
10 Resolution. The names and capacities of those persons having or
11 claiming an interest in the Resolution and the proceedings leading
12 up to the adoption of the Resolution are unknown to the District,
13 who therefore names such persons as provided under §860 *et seq.* of
14 the Code of Civil Procedure.

15 13. *The Oakland Tribune* is a newspaper published and of
16 general circulation in the jurisdiction of the Peralta Community
17 College District and is the newspaper most likely to give notice
18 to persons interested in these proceedings. Publication of the
19 Summons in said newspaper should be ordered by the Court under
20 §861 of the Code of Civil Procedure and §6063 of the Government
21 Code. The District is informed and believes, and thereon alleges,
22 that the proceedings held thereunder and the Resolution are of
23 general knowledge to the persons affected thereby or interested
24 therein. The only other notice reasonably practicable is notice
25 given by (1) posting a copy of the Summons in the District
26 administrative offices, and (2) mailing copies of the Summons and
27 Complaint to those persons, if any, or their attorneys of record,
28 who either have expressly notified one or more of the attorneys of

1 record herein of their interest in this matter or have filed and
2 served legal actions against Plaintiff challenging, *inter alia*,
3 the validity of the Resolution, the Bonds or any other related
4 contracts or agreements approved by the Resolution or contemplated
5 by the Board of Trustees of the District in connection with the
6 issuance of the Bonds.

7 14. This action is brought in this Court under §860 of the
8 Code of Civil Procedure as a special *in rem* proceeding for the
9 judicial examination, approval and confirmation of the proceedings
10 leading up to and including the adoption of the Resolution
11 authorizing the issuance and sale of the Bonds by the District.

12 15. All such proceedings by and for the District and the
13 provisions of the Resolution were and are in the best interests of
14 the District and all interested parties, and were and are in
15 conformity with the provisions of all laws and enactments at any
16 time in force or controlling upon said proceedings, whether of
17 law, statute or ordinance, and whether federal, state or municipal
18 and were and are in conformity with all requirements of all
19 regulatory bodies, agencies or officials having authority over or
20 asserting authority over said proceedings or any part thereof.

21 WHEREFORE, Plaintiff prays for entry of judgment as follows:

22 1. That the Court order that the jurisdiction of interested
23 persons be by publication of the Summons under §861 of the Code of
24 Civil Procedure and §6063 of the Government Code in *The Oakland*
25 *Tribune* commencing as soon as is practicable, and by posting a
26 copy of the Summons in the District administrative office prior to
27 completion of publication, and that said jurisdiction shall be

28

1 complete ten (10) days after completion of publication of the
2 Summons under §6063 of the Government Code.

3 2. That the Court find that this action is properly brought
4 under §860 *et seq.* of the Code of Civil Procedure.

5 3. That judgment be entered determining that:

6 (a) This action is properly brought under §53511 of the
7 Government Code and §860 of the Code of Civil Procedure;

8 (b) All proceedings by and for Plaintiff in connection with
9 the Resolution, the Bonds and the refunding of the Health Benefit
10 Obligations of the District, and any related contracts or
11 agreements approved by the Resolution or contemplated by the Board
12 of Trustees of the District in connection with the issuance of the
13 Bonds and the refunding of the Health Benefit Obligations, were
14 and are valid, legal and binding obligations in accordance with
15 their terms and were and are in conformity with the applicable
16 provisions of all laws and enactments at any time in force or
17 controlling upon such proceedings, whether imposed by law,
18 constitution, statute or ordinance, and whether federal, state or
19 municipal, including but not limited to the provisions of Article
20 XVI, Section 18, of the California Constitution;

21 (c) All conditions, things and acts required by law to
22 exist, happen or be performed precedent to the adoption of the
23 Resolution, and the terms and conditions thereof, and including
24 the authorization for the issuance of the Bonds and the execution
25 and delivery of all related contracts or agreements approved by
26 the Resolution or contemplated by the Board of Trustees of the
27 District in connection with the issuance of the Bonds, have
28 existed, happened and been performed in the time, form and manner

1 required by law;

2 (d) The District has the authority under California law to
3 issue the Bonds and to execute and deliver the Indenture and all
4 contracts and agreements enacted pursuant thereto;

5 (e) The District has the authority under California law to
6 provide for the refunding of its obligations, by issuing the Bonds
7 and applying the proceeds of the Bonds to the payment and
8 refunding of its Health Benefit Obligations;

9 (f) The District will be obligated to satisfy its
10 obligations under the Bonds from any generally available funds of
11 the District, and the Board of Trustees of the District will be
12 obligated to make all annual appropriations of such funds as may
13 be required to satisfy its annual obligations under the Bonds;

14 (g) The Bonds and all agreements related thereto, are exempt
15 from and not subject to the debt limitations set forth in Article
16 XVI, Section 18, of the California Constitution;

17 (h) The Bonds (and all contracts and agreements related
18 thereto) are obligations imposed by law;

19 (i) The Bonds and any and all contracts and agreements
20 executed and delivered in connection therewith are valid and
21 binding obligations under the Constitution and laws of the State
22 of California; and

23 (j) The District's incurrence of any and all indebtedness
24 and/or liability in connection with the Bonds (and all contracts
25 and agreements related thereto) is exempt from and not subject to
26 the debt limitations set forth in Article XVI, Section 18, of the
27 California Constitution.

28 4. For costs incurred herein.

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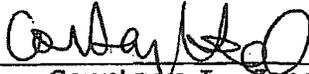
5. For such other and further relief as the Court may deem just and proper.

Dated: August 18, 2005

CHARLES F. ADAMS, ESQ.
COURTNEY L. JONES, ESQ.
Jones Hall
A Professional Law Corporation

THUY THI NGUYEN, ESQ.
Peralta Community College
District

Attorneys for Plaintiff

By 
Courtney L. Jones



ORIGINAL ●

1 Charles F. Adams (State Bar #69952)
2 Courtney L. Jones (State Bar #178686)
3 Jones Hall, A Professional Law Corporation
4 650 California Street, 18th Floor
5 San Francisco, California 94108
6 Telephone: (415) 391-5780
7 cadams@joneshall.com
8 cjones@joneshall.com

FILED
ALAMEDA COUNTY

AUG 29 2005

CLERK OF THE SUPERIOR COURT
BY Shankar Chav DEPUTY

9 Thuy Thi Nguyen (State Bar #213125)
10 Peralta Community College District
11 333 East Eighth Street
12 Oakland, California 94606
13 Telephone: (510) 466-7200
14 ttnguyen@peralta.edu

15 Attorneys for Plaintiff

RECEIVED

AUG 19 2005

Shankar Chav

16 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
17 IN AND FOR THE COUNTY OF ALAMEDA
18 UNLIMITED CIVIL JURISDICTION

19 PERALTA COMMUNITY COLLEGE DISTRICT,
20 Plaintiff,
21 vs.

NO. 26 05-228682

22 ALL PERSONS INTERESTED IN THE
23 MATTER OF THE ISSUANCE AND SALE OF
24 BONDS FOR THE PURPOSE OF REFUNDING
25 CERTAIN OBLIGATIONS OWED BY THE
26 PERALTA COMMUNITY COLLEGE DISTRICT
27 IN RESPECT OF EMPLOYEE HEALTH CARE
28 BENEFITS, AND ALL PROCEEDINGS
LEADING THERETO, INCLUDING THE
ADOPTION OF A RESOLUTION
AUTHORIZING THE ISSUANCE AND SALE
OF SUCH BONDS,
Defendants.

~~(FORM OF)~~ ORDER OF
PUBLICATION OF SUMMONS
AND OTHER NOTICE IN
VALIDATION ACTION
(\$860 et seq. of the
Code of Civil Procedure)
[Fee Exemption:
Govt. Code § 6103]

PC

It appearing from the complaint in the herein action that the
herein action is one brought pursuant to §860 et seq. of the Code
of Civil Procedure and based upon the Ex Parte Application for

1 Order of Publication of Summons and Other Notice in Validation
2 Action,

3 IT IS ORDERED that publication of Summons in the form
4 attached hereto be made in *The Oakland Tribune*, an adjudicated
5 newspaper of general circulation published in the geographical
6 jurisdiction of the Peralta Community College District, for the
7 period of time and in the manner prescribed in §861 of the Code of
8 Civil Procedure and §6063 of the Government Code.

9 IT IS FURTHER ORDERED that a copy of the summons and
10 complaint be posted for a period of three weeks, commencing no
11 later than the date of first publication of summons in *The Oakland*
12 *Tribune*, or as soon thereafter as is reasonably practicable, in
13 the Administrative Office of the District located at 333 East
14 Eighth Street, Oakland, California 94606.

15 IT IS FURTHER ORDERED that copies of the summons and
16 complaint be served upon those persons, if any, or their attorneys
17 of record, who either have expressly notified one or more of the
18 attorneys of record herein of their interest in this matter or
19 have filed and served legal actions, against Plaintiff
20 challenging, *inter alia*, the validity of the July 28, 2005
21 resolution of the Board of Trustees of the Peralta Community
22 College District authorizing and approving the issuance of bonds
23 or of the execution and delivery of the Bonds related contracts or
24 agreements approved by the resolution or contemplated by the Board
25 of Trustees of the District in connection with the issuance of the
26 bonds.

27 IT IS FURTHER ORDERED that jurisdiction of all interested
28 persons in this action shall be complete after the date that is
Order of Publication

1 not less than ten (10) days after the completion of publication of
2 said Summons pursuant to §6063 of the Government Code, and that
3 the posting and mailing is otherwise completed in conformance with
4 this Order.

5
6 Dated: August 29, 2005

St. A. B. K.

Judge of the Superior Court

PC

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ORIGINAL

1 Charles F. Adams (State Bar #69952)
Courtney L. Jones (State Bar #178686)
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3 San Francisco, California 94108
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4 cadams@joneshall.com
cjones@joneshall.com

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6 Thuy Thi Nguyen (State Bar #213125)
Peralta Community College District
333 East Eighth Street
7 Oakland, California 94606
Telephone: (510) 466-7200
8 ttnguyen@peralta.edu

9 Attorneys for Plaintiff

10 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 IN AND FOR THE COUNTY OF ALAMEDA
12 UNLIMITED CIVIL JURISDICTION
13

14 PERALTA COMMUNITY COLLEGE DISTRICT,)

15 Plaintiff,)

16 vs.)

17 ALL PERSONS INTERESTED IN THE)
MATTER OF THE ISSUANCE AND SALE OF)
18 BONDS FOR THE PURPOSE OF REFUNDING)
CERTAIN OBLIGATIONS OWED BY THE)
19 PERALTA COMMUNITY COLLEGE DISTRICT)
IN RESPECT OF EMPLOYEE HEALTH CARE)
20 BENEFITS, AND ALL PROCEEDINGS)
LEADING THERETO, INCLUDING THE)
21 ADOPTION OF A RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE)
22 OF SUCH BONDS,)

23 Defendants.)
24)

No. 7605-228682

SUMMONS
CITATION JUDICIAL
(§860 et seq. of the
Code of Civil Procedure)

[Fee Exemption:
Govt. Code § 6103]



25 Issued: 8/19/2005

26 ARTHUR SIMS
EXECUTIVE OFFICER/CLERK

27 *Santha Cole*
28

1 NOTICE! YOU HAVE BEEN SUED. THE COURT MAY DECIDE AGAINST YOU
2 WITHOUT YOUR BEING HEARD UNLESS YOU RESPOND NOT LATER THAN THE
3 26th DAY OF SEPTEMBER, 2005, WHICH IS AT LEAST TEN (10) DAYS AFTER
4 COMPLETION OF PUBLICATION OF THIS SUMMONS. READ THE INFORMATION
5 BELOW.

6 AVISO! USTED HA SIDO DEMANDADO. EL TRIBUNAL PUEDE DECIDIR
7 CONTRA UD. SIN AUDIENCIA A MENOS QUE UD. RESPONDA NO MAS TARDE DE
8 EL 26 DE SEPTIEMBRE, 2005, QUE ES DIEZ (10) DIAS DESPUES DE
9 TERMINACION DE PUBLICACION DE ESTA CITACION. LEA LA INFORMACION
10 QUE SIGUE.

11 TO ALL PERSONS INTERESTED IN THE MATTER OF THE ISSUANCE AND
12 SALE OF BONDS FOR THE PURPOSE OF REFUNDING CERTAIN OBLIGATIONS
13 OWED BY THE CITY OF FAIRFIELD TO THE CALIFORNIA PUBLIC EMPLOYEES'
14 RETIREMENT SYSTEM UNDER THE PUBLIC EMPLOYEES' RETIREMENT LAW, AND
15 ALL PROCEEDINGS LEADING THERETO, INCLUDING THE ADOPTION OF A
16 RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF SUCH BONDS.

17 PLEASE TAKE NOTICE that a complaint has been filed by
18 plaintiff against you pursuant to California Code of Civil
19 Procedure Section 860 et seq. and California Government Code
20 Section 53510 et seq. for the purpose of validating the proposed
21 issuance of Bonds, the proceeds of which will be issued for the
22 purpose of discharging the City's unfunded accrued actuarial
23 liability to the California Public Employees' Retirement System,
24 and to validate other related matters. If you wish to contest the
25 legality or validity of this lawsuit you must appear and answer
26 said complaint by filing a written pleading in response to said
27 complaint not later than the 26th day of September, 2005, which
28 date is at least 10 days after completion of publication of this

Summons

1 summons. Your pleading must be in the form required by the
2 California Rules of Court. Your original pleading must be filed in
3 this Court with proper filing fees and proof that a copy thereof
4 was served on Plaintiff's attorneys.

5 Unless you do so, your default will be entered upon
6 application by the plaintiff, the plaintiff may apply to the court
7 for the relief demanded in the complaint. PERSONS WHO CONTEST THE
8 LEGALITY OR VALIDITY OF THE MATTER WILL NOT BE SUBJECT TO PUNITIVE
9 ACTION, SUCH AS WAGE GARNISHMENT OR SEIZURE OF THEIR REAL OR
10 PERSONAL PROPERTY.

11 YOU MAY SEEK THE ADVICE OF AN ATTORNEY IN ANY MATTER
12 CONNECTED WITH THE COMPLAINT OR THIS SUMMONS. SUCH ATTORNEY SHOULD
13 BE CONSULTED PROMPTLY SO THAT YOUR PLEADING MAY BE FILED OR
14 ENTERED WITHIN THE TIME REQUIRED BY THIS SUMMONS.

15 SI USTED DESEA SOLICITAR EL CONSEJO DE UN ABOGADO EN ESTE
16 ASUNTO, DEBERIA HACERLO IMEDIATAMENTE, DE ESTA MANERA, SU REPUESTA
17 ESCRITA, SI HAY ALGUNA, PUEDE SER REGISTRADA A TIEMPO.

18 The name and address of the Court is (El nombre y direccion
19 del Superior Tribunal es):

20 Superior Court of the State of California
21 In and for the County of Alameda
22 Renee C. Davidson Alameda County Courthouse
23 1225 Fallon Street
24 Oakland, California 94612
25

26 The names and addresses of Plaintiffs' attorneys are (Los
27 nombres y direcciones del abogado del demandante son):
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Charles F. Adams (State Bar #69952)
Courtney L. Jones (State Bar #178686)
Jones Hall, A Professional Law
Corporation
650 California Street, 18th Floor
San Francisco, California 94108
Telephone: (415) 391-5780

Thuy Thi Nguyen (State Bar #213125)
Peralta Community College District
333 East Eighth Street
Oakland, California 94606
Telephone: (510) 466-72

DATED _____ By _____
Clerk
(Actuario)

COPY

1 Charles F. Adams (State Bar #69952)
2 Courtney L. Jones (State Bar #178686)
3 Jones Hall, A Professional Law Corporation
4 650 California Street, 18th Floor
5 San Francisco, California 94108
6 Telephone: (415) 391-5780
7 cadams@joneshall.com
8 cjones@joneshall.com

9 Thuy Thi Nguyen (State Bar #213125)
10 Peralta Community College District
11 333 East Eighth Street
12 Oakland, California 94606
13 Telephone: (510) 466-7200
14 ttnguyen@peralta.edu

15 Attorneys for Plaintiff

ENDORSED
FILED
ALAMEDA COUNTY

OCT 08 2005

CLERK OF THE SUPERIOR COURT
By Alphonsine Oates, Deputy

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IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF ALAMEDA
UNLIMITED CIVIL JURISDICTION

PERALTA COMMUNITY COLLEGE DISTRICT,)
Plaintiff,)
vs.)
ALL PERSONS INTERESTED IN THE)
MATTER OF THE ISSUANCE AND SALE OF)
BONDS FOR THE PURPOSE OF REFUNDING)
CERTAIN OBLIGATIONS OWED BY THE)
PERALTA COMMUNITY COLLEGE DISTRICT)
IN RESPECT OF EMPLOYEE HEALTH CARE)
BENEFITS, AND ALL PROCEEDINGS)
LEADING THERETO, INCLUDING THE)
ADOPTION OF A RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE)
OF SUCH BONDS,)
Defendants.)

No. RG 05-2288682

PROOF OF PUBLICATION OF
SUMMONS IN SUPPORT OF
PLAINTIFF'S REQUEST TO
ENTER DEFAULT

(\$860 *et seq.* of the
Code of Civil Procedure)

[Fee Exemption:
Govt. Code § 6103]

OAKLAND TRIBUNE

c/o ANG Newspapers
401 13th Street, Oakland, CA 94612
Legal Advertising
(909) 595-8595 option 4

PROOF OF PUBLICATION

In the matter of:

NO. RG 05-228682

**Feralta Community College District, Plaintiff,
vs. All persons interested in the matter of the
issuance and sale of bonds, Defendants**

I am a citizen of the United States; I am over the age of eighteen years, and not a party or interested in the above-entitled matter. I am the Legal Advertising Clerk of the printer and publisher of The Oakland Tribune, a newspaper published in the English language in the City of Oakland, County of Alameda, State of California.

I declare that The Oakland Tribune is a newspaper of general circulation as defined by the laws of the State of California as determined by this court's order, dated December 8, 1961, in the action entitled in the Matter of the Ascertainment and Establishment of the Standing of The Oakland Tribune as a Newspaper of General Circulation, Case Number 237796. Said order states that "The Oakland Tribune is a newspaper of general circulation within the City of Oakland, and the County of Alameda, and the State of California, within the meaning and intent of Chapter 1, Division 7, Title 1 (§§ 6000 et seq.), of the Government Code of the State of California." Said order has not been revoked, vacated, or set aside.

The

PUBLIC NOTICE

That the notice, of which the annexed is a printed copy, has been filed in each regular and entire issue of said newspaper and not in any supplement thereof on the following dates, to wit:

September 1, 8, 15, 2005

I certify (or declare) under the penalty of perjury that the foregoing is true and correct.

Harmon S. Kirk
Public Notice Advertising Clerk

Legal No.

555497

SUMMONS
CITATION JURIDICAL
(Part of sec. of the
Code of Civil Procedure)
Free Casephone
Gov. Code § 51013
No. RB 05-228682

IN THE SUPERIOR COURT
OF THE STATE OF CALIFORNIA IN
AND FOR THE COUNTY OF ALAMEDA
UNLIMITED CIVIL JURISDICTION

FERALTA COMMUNITY COLLEGE
DISTRICT,
Plaintiff,
vs.
ALL PERSONS INTERESTED IN THE
MATTER OF THE ISSUANCE AND SALE
OF BONDS FOR THE PURPOSE OF
REFUNDING CERTAIN OBLIGATIONS
OWED BY THE FERALTA COMMUNITY
COLLEGE DISTRICT IN RESPECT OF
EMPLOYEE HEALTH CARE BENEFITS,
AND ALL PROCEEDINGS LEADING
THEREIN, INCLUDING THE ADOPTION
OF A RESOLUTION AUTHORIZING THE
ISSUANCE AND SALE OF SUCH
BONDS.
Defendants.

NOTICE YOU HAVE BEEN SUED. THE
COURT HAS ORDERED AGAINST YOU
WITHOUT YOUR BEING HEARD UNLESS
YOU RESPOND NOT LATER THAN THE
25TH DAY OF SEPTEMBER, 2005, WHICH IS
AT LEAST TEN (10) DAYS AFTER
COMPLETION OF PUBLICATION OF THIS
SUMMONS. READ THE INFORMATION
BELOW.

AVISO USTED HA SIDO DEMANDADO.
EL TRIBUNAL PUEDE DECIDIR CONTRA USTED
SIN AUDIENCIA A MENOS QUE USTED
RESPONDA NO MAS TARDE DE EL 25 DE
SEPTIEMBRE 2005, CUYOS DIEZ (10) DIAS
DESPUES DE LA TERMINACION DE LA
PUBLICACION DE ESTA CITACION LEA LA
INFORMACION QUE SIGUE.

TO ALL PERSONS INTERESTED IN THE
MATTER OF THE ISSUANCE AND SALE OF
BONDS FOR THE PURPOSE OF
REFUNDING CERTAIN OBLIGATIONS OWED
BY THE CITY OF FAIRFIELD TO THE
CALIFORNIA PUBLIC EMPLOYEES
RETIREMENT SYSTEM UNDER THE PUBLIC
EMPLOYEES RETIREMENT LAW, AND ALL
PROCEEDINGS LEADING THERETO,
INCLUDING THE ADOPTION OF A
RESOLUTION AUTHORIZING THE
ISSUANCE AND SALE OF SUCH BONDS.

PLEASE TAKE NOTICE that a complaint
has been filed by plaintiff against you
pursuant to California Code of Civil
Procedure Section 560 et seq. and California
Code Section 51310 et seq. for the purpose
of voiding the proposed issuance of
bonds, the proceeds of which will be used
for the purpose of discharging the City's
unfunded accrued actuarial liability to the
California Public Employees' Retirement
System, and to void any other related matters.
If you wish to contest the legality or validity of
this lawsuit you must appear and answer said
complaint by filing a written pleading in
response to said complaint not later than the
25th day of September, 2005, which date is
at least ten (10) days after completion of
publication of this summons. Your pleading
must be in the form required by the California
Rules of Court. Your original pleading must
be filed in this Court with proper filing fees
and must have a copy thereof served on
plaintiff's attorney.

Unless you do so, your default will be
entered upon application by the plaintiff, the
effect may apply to the court for the relief
described in the complaint. PERSONS WHO
CONTEST THE LEGALITY OR VALIDITY OF
THE MATTER WILL NOT BE SUBJECT TO
PUNITIVE ACTION, SUCH AS WAGE
GARNISHMENT OR SEIZURE OF THEIR
REAL OR PERSONAL PROPERTY.

YOU MAY SEEK THE ADVICE OF AN
ATTORNEY IN ANY MATTER CONCERNING
WITH THE COMPLAINT OR THIS
SUMMONS. SUCH ATTORNEY SHOULD BE
CONSULTED PROMPTLY SO THAT YOUR
PLEASURES MAY BE FILED OR ENTERED
WITHIN THE TIME REQUIRED BY THIS
SUMMONS.

SI USTED DESEA SOLICITAR EL
CONSEJO DE UN ABOGADO EN ESTE
ASUNTO, DEBERIA HACERLO
INMEDIATAMENTE DE ESTA MANERA. SU
REPUESTA ESCRITA, SI HAY ALGUNA,
PUEDE SER REGISTRADA A TIEMPO.

The name and address of the Court is:
SUPERIOR COURT OF THE STATE OF
CALIFORNIA IN AND FOR THE COUNTY
OF ALAMEDA
RENÉE C. DAVIDSON
ALAMEDA COUNTY COURTHOUSE
1223 FALLON STREET
OAKLAND, CALIFORNIA 94612
(The names and addresses of the Plaintiff's
attorneys are (Los nombres y direcciones del
abogado del demandante son):

CHARLES F. ADAMS
(STATE BAR #69662)
COURTNEY L. LOVIE
(STATE BAR #78286)
JONES HALL, A PROFESSIONAL LAW
CORPORATION
500 CALIFORNIA STREET, 18TH FLOOR
SAN FRANCISCO, CALIFORNIA 94107
TELEPHONE: (415) 394-5790

TRUY TH NGUYEN
(STATE BAR #21925)
FERALTA COMMUNITY COLLEGE
DISTRICT
225 EAST EIGHTH STREET
OAKLAND, CALIFORNIA 94608
TELEPHONE: (970) 488-7200

DATE: AUGUST 18, 2005

SUPERIOR COURT OF CALIFORNIA
COUNTY OF ALAMEDA
ARTHUR SIBS
EXECUTIVE OFFICER/CLERK
BY: ELBA (ACTUARIAL)
SANDRA COLE

The Oakland Tribune, 555497
September 1, 8, 15, 2005

COPY

982(a)(6)

ATTORNEY FOR PARTY WITHOUT ATTORNEY (Name, State, and address): Courtney L. Jones, Esq. (#178686) Jones Hall, APLC 650 California St., 18th Fl. San Francisco, CA 94108 TELEPHONE NO.: 415-391-5780 FAX NO. (Optional): 415-391-5784 E-MAIL ADDRESS (Optional): cjones@joneshall.com ATTORNEY FOR (Name): Peralta Community College District		FOR COURT USE ONLY ENDORSED FILED ALAMEDA COUNTY OCT-3 2005 CLERK OF THE SUPERIOR COURT BY DOROTHY DUCKETT, DEPUTY
SUPERIOR COURT OF CALIFORNIA, COUNTY OF Alameda STREET ADDRESS: 1225 Fallon St. MAILING ADDRESS: CITY AND ZIP CODE: Oakland, CA 94612 BRANCH NAME: Rene C. Davidson		
PLAINTIFF/PETITIONER: Peralta Community College District DEFENDANT/RESPONDENT: All Persons Interested ...		CASE NUMBER: RG 05-228682
REQUEST FOR (Application) <input checked="" type="checkbox"/> Entry of Default <input type="checkbox"/> Clerk's Judgment <input checked="" type="checkbox"/> Court Judgment		

1. TO THE CLERK: On the complaint or cross-complaint filed
- a. on (date): **August 19, 2005**
 - b. by (name): **Peralta Community College District**
 - c. Enter default of defendant (names): **All Persons Interested In the Matter...**
 - d. I request a court judgment under Code of Civil Procedure sections 585(b), 585(c), 989, etc., against defendant (names):
All Persons Interested In the Matter...

(Testimony required. Apply to the clerk for a hearing date, unless the court will enter a judgment on an affidavit under Code Civ. Proc., § 585(d).)

- e. Enter clerk's judgment
 - (1) for restitution of the premises only and issue a writ of execution on the judgment. Code of Civil Procedure section 1174(c) does not apply. (Code Civ. Proc., § 1169.)
 Include in the judgment all tenants, subtenants, named claimants, and other occupants of the premises. The *Prejudgment Claim of Right to Possession* was served in compliance with Code of Civil Procedure section 415.46.
 - (2) under Code of Civil Procedure section 585(a). (Complete the declaration under Code Civ. Proc., § 585.5 on the reverse (item 5).)
 - (3) for default previously entered on (date):

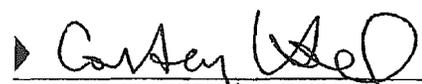
2. Judgment to be entered.

	Amount	Credits acknowledged	Balance
a. Demand of complaint	\$ -0-	\$	\$
b. Statement of damages *			
(1) Special	\$ -0-	\$	\$
(2) General	\$	\$	\$
c. Interest	\$ -0-	\$	\$
d. Costs (see reverse)	\$ -0-	\$	\$
e. Attorney fees	\$ -0-	\$	\$
f. TOTALS	\$ -0-	\$ -0-	\$ -0-

g. Daily damages were demanded in complaint at the rate of: \$ _____ per day beginning (date): _____
 (* Personal injury or wrongful death actions; Code Civ. Proc., § 425.11.)

3. (Check if filed in an unlawful detainer case) Legal document assistant or unlawful detainer assistant information is on the reverse (complete item 4).

Date: **September 27, 2005**
 Courtney L. Jones


 (SIGNATURE OF PLAINTIFF OR ATTORNEY FOR PLAINTIFF)

FOR COURT USE ONLY	(1) <input checked="" type="checkbox"/> Default entered as requested on (date): 10/3/05
	(2) <input type="checkbox"/> Default NOT entered as requested (state reason): _____
Clerk, by  Deputy	

PLAINTIFF/PETITIONER: <u>Peralta Community College District</u>	CASE NUMBER: <u>RG 05-228682</u>
DEFENDANT/RESPONDENT: <u>All Persons Interested ...</u>	

4. **Legal document assistant or unlawful detainer assistant (Bus. & Prof. Code, § 6400 et seq.).** A legal document assistant or unlawful detainer assistant did did not for compensation give advice or assistance with this form. (If declarant has received any help or advice for pay from a legal document assistant or unlawful detainer assistant, state):

- a. Assistant's name:
- b. Street address, city, and zip code:
- c. Telephone no.:
- d. County of registration:
- e. Registration no.:
- f. Expires on (date):

5. **Declaration under Code of Civil Procedure Section 585.5 (required for entry of default under Code Civ. Proc., § 585(a)).** This action

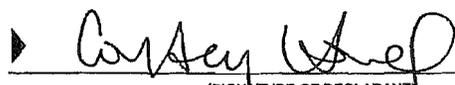
- a. is is not on a contract or installment sale for goods or services subject to Civ. Code, § 1801 et seq. (Unruh Act).
- b. is is not on a conditional sales contract subject to Civ. Code, § 2981 et seq. (Rees-Levering Motor Vehicle Sales and Finance Act).
- c. is is not on an obligation for goods, services, loans, or extensions of credit subject to Code Civ. Proc., § 395(b).

6. **Declaration of mailing (Code Civ. Proc., § 587).** A copy of this Request for Entry of Default was

- a. not mailed to the following defendants, whose addresses are unknown to plaintiff or plaintiff's attorney (names):
- b. All Persons Interested In the Matter... mailed first-class, postage prepaid, in a sealed envelope addressed to each defendant's attorney of record or, if none, to each defendant's last known address as follows:
 - (1) Mailed on (date):
 - (2) To (specify names and addresses shown on the envelopes):

I declare under penalty of perjury under the laws of the State of California that the foregoing items 4, 5, and 6 are true and correct.

Date: September 27, 2005
Courtney L. Jones
 (TYPE OR PRINT NAME)


 (SIGNATURE OF DECLARANT)

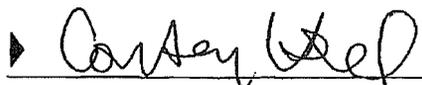
7. **Memorandum of costs (required if money judgment requested).** Costs and disbursements are as follows (Code Civ. Proc., § 1033.5):

a. Clerk's filing fees	\$
b. Process server's fees	\$
c. Other (specify):	\$
d.	\$
e. TOTAL	\$ _____

- f. Costs and disbursements are waived.
- g. I am the attorney, agent, or party who claims these costs. To the best of my knowledge and belief this memorandum of costs is correct and these costs were necessarily incurred in this case.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

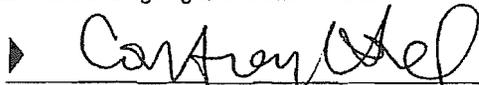
Date: September 27, 2005
Courtney L. Jones
 (TYPE OR PRINT NAME)


 (SIGNATURE OF DECLARANT)

8. **Declaration of nonmilitary status (required for a judgment).** No defendant named in item 1c of the application is in the military service so as to be entitled to the benefits of the Servicemembers Civil Relief Act (50 U.S.C. App. § 501 et seq.).

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Date: September 27, 2005
Courtney L. Jones
 (TYPE OR PRINT NAME)


 (SIGNATURE OF DECLARANT)

COPY

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15 Attorneys for Plaintiff

16
17 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
18
19 IN AND FOR THE COUNTY OF ALAMEDA
20
21 UNLIMITED CIVIL JURISDICTION

22 PERALTA COMMUNITY COLLEGE DISTRICT,)
23 Plaintiff,)
24 vs.)
25 ALL PERSONS INTERESTED IN THE)
26 MATTER OF THE ISSUANCE AND SALE OF)
27 BONDS FOR THE PURPOSE OF REFUNDING)
28 CERTAIN OBLIGATIONS OWED BY THE)
PERALTA COMMUNITY COLLEGE DISTRICT)
IN RESPECT OF EMPLOYEE HEALTH CARE)
BENEFITS, AND ALL PROCEEDINGS)
LEADING THERETO, INCLUDING THE)
ADOPTION OF A RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE)
OF SUCH BONDS,)
Defendants.)

ENDORSED
FILED
ALAMEDA COUNTY

OCT 4 - 2005

CLERK OF THE SUPERIOR COURT
By MARGARETA DOMAL
Deputy

No. RG 05-228682

MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT OF
PLAINTIFF'S APPLICATION
FOR DEFAULT JUDGMENT

(\$860 et seq. of the Code
of Civil Procedure)

[Fee Exemption:
Govt. Code § 6103]

TABLE OF CONTENTS

1		
2		
3	I. INTRODUCTION	1
4		
5	II. FACTUAL BACKGROUND	1
6		
7	III. THIS ACTION IS PROPERLY BROUGHT UNDER CODE OF CIVIL PROCEDURE SECTIONS 860 ET SEQ. AND GOVERNMENT CODE SECTIONS 53511 AND 53589.5	4
8		
9	IV. THE DISTRICT HAS THE POWER TO AUTHORIZE THE BONDS, THE INDENTURE OF TRUST AND ANY RELATED AGREEMENTS	5
10		
11	V. THE CONSTITUTIONAL DEBT LIMITATION IS INAPPLICABLE	6
12		
13	A. The Health Benefit Obligations Are Obligations Imposed By Law	6
14		
15	B. The Bonds Are Obligations Imposed By Law	15
16		
17	VI. THE REQUISITE PROCEDURES UNDER CODE OF CIVIL PROCEDURE SECTIONS 860 ET SEQ. HAVE BEEN SATISFIED, AND ENTRY OF A DEFAULT JUDGMENT IS MERITED	17
18		
19	VII. FOOTNOTES	F-1
20		
21		
22		
23		
24		
25		
26		
27		
28		

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TABLE OF AUTHORITIES

CASES

- Long Beach v. Lisenby (1919) 180 Cal. 52
- H.D. Haley & Co. v. McVay (1924) 70 Cal. App. 438
- Lewis v. Widber (1893) 99 Cal. 412
- Lotts v. Board of Park Commissioners (1936) 13 Cal. App. 2d 625
- County of Los Angeles v. Byram (1951) 36 Cal.2d 694
- Compton Community College Fed'n of Teachers v. Compton Community College Dist. (1985) 165 Cal. App. 3d 82
- Wright v. Compton Unified Sch. Dist. (1975) 46 Cal. App. 3d 177
- Serrano v. Priest (1976) 18 Cal.3d 728
- City of Los Angeles v. Teed (1896) 112 Cal. 319
- Graydon v. Pasadena Redevelopment Agency, 104 Cal. App. 3d 631, cert. denied (1980) 449 U.S. 983
- Byers v. Board of Supervisors (1968) 262 Cal. App. 2d 148
- Tax Factors, Inc. v. County of Marin (1937) 20 Cal. App. 2d 79
- Hicks v. Board of Supervisors (1977) 69 Cal. App. 3d 228

CONSTITUTIONS

- Cal. Const., Art. XVI, §18
- Cal. Const., Art. IX, §§ 1, 5
- Cal. Const., Art. XVI, §8

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STATUTES

Code of Civil Procedure Section 860 et seq.

Gov.C. §53511

Gov.C. §53589.5

Gov.C. §53510

Gov.C. §53570

Gov.C. §§ 53511 and 53589

Gov.C. §53587

Gov.C. §3543.2

Ed.C. §35160

Ed.C. §35161

Ed. C. §72290

Labor C. §§2120 et seq.

Labor C. §2120.2

Labor C. §2160

Labor C. §2140

Labor C. §2122.2

Labor C. §2120.3

1 I. INTRODUCTION

2 Plaintiff, the Peralta Community College District (the
3 "District"), brings this action under Code of Civil Procedure
4 Sections 860 *et seq.* to validate proceedings relating to the
5 following: (1) the issuance of Bonds the proceeds of which will be
6 used to refinance the District's existing obligation to pay
7 certain health care insurance benefits evidenced by agreements
8 between the District and certain employees, including current and
9 retired employees, (2) the execution and delivery of an indenture
10 of trust and any other related agreements or contracts authorized
11 or contemplated by the Board of Trustees of the District, and (3)
12 the adoption of a resolution authorizing the foregoing.

13 Under Code of Civil Procedure Section 861 and this Court's
14 Order of August 29, 2005, jurisdiction over defendants, all
15 persons interested in these proceedings, has been obtained by (1)
16 publication of the Summons in *The Oakland Tribune* and (2) by
17 posting a copy of the summons and complaint in the District
18 administrative offices for a period of three weeks.

19 No answer was filed by September 26, 2005, the statutory
20 deadline to file an answer. Accordingly, Plaintiff seeks entry of
21 a default judgment and a default judgment by the court.
22

23 II. FACTUAL BACKGROUND

24 Government Code Section 53201 authorizes the governing board
25 of a school district to provide for any health and welfare
26 benefits for the benefit of its officers and employees, including
27 its retired employees and retired members of the governing board.
28 Gov.C. 53201. In providing such benefits, the school district may

1 contract with one or more insurers for a health care plan. Gov.C.
2 53202. Furthermore, the Health Insurance Act of 2003 (Labor Code
3 2120 et seq.) requires the District, as a "large employer" under
4 the Health Act (Labor C. 2122.3), to provide health care coverage
5 for its employees and dependents commencing January 1, 2006.
6 Labor C. 2120.1 subd. (a).

7 In furtherance of its obligation to provide health care
8 benefits to its employees, the District has committed through
9 certain agreements (the "Employee Health Care Agreements") to
10 provide certain health care benefits to its employees. Under the
11 Employee Health Care Agreements, certain employees and certain of
12 their family members are entitled to receive post-retirement
13 health care benefits. To that end, the Employee Health Care
14 Agreements obligate the District each year to appropriate District
15 funds to pay a defined portion of the premiums for health care
16 insurance covering such retirees and certain of such retirees'
17 family members (the "Health Benefit Obligations").

18 California Education Code Section 42140 requires the
19 superintendent of a school district that provides health benefits
20 for employees upon their retirement, which benefits will continue
21 after the employee reaches 65 years of age, to annually report to
22 the governing board of the district information regarding the
23 estimated accrued but unfunded costs of those benefits. Such
24 information is to be obtained by an actuarial report performed at
25 least every three years. Ed.C. 42140 subd. (a).

26 Under Education Code Section 42140, the District obtained an
27 actuarial study from The Epler Company, dated February 27, 2004
28 (the "Study"). A true and correct copy of the Study is attached

1 to the Complaint as Exhibit A and by this reference incorporated
2 herein. The Study determined that the amount of actuarial
3 liability for retiree benefits, as of January 1, 2004, was
4 \$140,000,000 on a present value basis. See Study, page 2. As
5 part of the Study, a projection of expected annual expense to the
6 District to pay benefits on behalf of its retirees on a pay-as-
7 you-go basis was prepared. The projection estimates annual
8 expenses to the District of between \$4 million and \$11 million in
9 each year through 2035, decreasing gradually thereafter assuming
10 no more retirees are admitted to the program. Study, page 7.
11 Three alternative funding scenarios are also presented in the
12 Study. Study, page 7.

13 Government Code Sections 53570 et seq. and Sections 53580 et
14 seq. (the "Refunding Law") authorize the District to issue bonds
15 for the purpose of refinancing any "Revenue Bonds", which is
16 defined to include any "evidence of indebtedness" (see Gov.C.
17 53570 subd. (b)), and to apply the proceeds of such bonds to
18 refinance the underlying obligations.

19 For the purpose of realizing substantial cash flow savings in
20 the current and immediately succeeding fiscal years and creating a
21 more level amortization schedule in connection with the Health
22 Benefit Obligations, on July 28, 2005, the Board of Trustees of
23 the District adopted a resolution (see Exhibit C attached to the
24 Complaint and by this reference incorporated as if fully set forth
25 herein) (the "Resolution") authorizing the issuance of bonds of
26 the District in the maximum aggregate principal amount of
27 \$250,000,000 (the "Refunding Bonds") under the Refunding Law and
28 an indenture of trust (the "Indenture") for the purpose of

1 refinancing the Health Benefit Obligations. The proceeds of the
2 Refunding Bonds will be deposited in trust with U.S. Bank Trust
3 National Association, as trustee, and applied to pay the Health
4 Benefit Obligations as they come due and payable, and the related
5 costs of issuance of the Refunding Bonds. The plan of financing
6 adopted in the Resolution is intended to save the District a
7 significant amount of money and create an obligation with level
8 debt service without diminishing in any form or manner the health
9 care benefits provided to District employees.

10
11 III. THIS ACTION IS PROPERLY BROUGHT UNDER CODE OF CIVIL PROCEDURE
12 SECTIONS 860 ET SEQ. AND GOVERNMENT CODE SECTIONS 53511 AND
13 53589.5.

14 Code of Civil Procedure Section 860¹ authorizes a public
15 agency to institute validation proceedings in cases where another
16 statute authorizes its use. In the instant case, Government Code
17 Section 53511 authorizes a local agency to "bring an action to
18 determine the validity of its bonds, warrants, contracts,
19 obligations or evidences of indebtedness" and Government Code
20 Section 53589.5 authorizes a local agency to bring a validation
21 action "to determine the validity of any issuance or proposed
22 issuance of refunding bonds" and any agreement entered into in
23 connection therewith. For the reasons discussed below, the
24 District submits that these statutory requirements are met.

25 Since Government Code Section 53510 defines a "local agency"
26 to include any "public district" and Government Code Section 53570
27 defines a "local agency" to include any "school district,"
28 Plaintiff Peralta Community College District is a proper party

1 authorized to bring this validation action. Moreover, all of the
2 documents and transactions which are the subject of this action
3 are the type authorized to be validated under Government Code
4 Sections 53511 and 53589 since they constitute evidences of
5 indebtedness, contracts or obligations of the District or are
6 refinancing bonds and agreements relating thereto.

7

8 IV. THE DISTRICT HAS THE POWER TO AUTHORIZE THE BONDS,
9 THE INDENTURE OF TRUST AND ANY RELATED AGREEMENTS.

10 The governing board of any school district may initiate and
11 carry on any program, activity, or may otherwise act in any manner
12 which is not in conflict with or inconsistent with, or preempted
13 by, any law and which is not in conflict with the purposes for
14 which school districts are established. Ed.C. 35160. It may
15 execute any powers delegated by law to it or to the district of
16 which it is governing board, and shall discharge any duty imposed
17 by law upon it or upon the district of which it is the governing
18 board. Ed.C. 35161.

19 As presented in Section III of this Memorandum, the Board of
20 Trustees has the authority under the Refunding Law to provide for
21 the issuance and sale of the Bonds and the execution and delivery
22 of the related agreements including, inter alia, an Indenture of
23 Trust which specifies the terms and conditions upon which the
24 Bonds are to be issued. Since the District has such power, the
25 Bonds, the above-mentioned Indenture of Trust and any related
26 agreements are valid and will become legal and binding obligations
27 of the District upon issuance or execution and delivery of the
28 same.

1 Furthermore, California courts frequently defer to the
2 judgment of a governing body of a public agency with respect to a
3 determination that a particular action is necessary to the full
4 discharge of such public agency's duties.² See, e.g., Long Beach
5 v. Lisenby (1919) 180 Cal. 52, 60-61 (determination of the method
6 by which an outstanding indebtedness shall be funded is within the
7 discretion of the governing body of the municipality); H.D. Haley
8 & Co. v. McVay (1924) 70 Cal. App. 438 at 442 (in the exercise of
9 their powers, supervisors are necessarily endowed with a large
10 amount of discretion).

11 Additionally, the District is not creating any additional
12 indebtedness by its issuance of the Bonds (except for any
13 discounts which are being funded out of proceeds of the Bonds and
14 are authorized by the Refunding Law, specifically Government Code
15 Section 53587) but is simply changing the form and clarifying the
16 terms of a pre-existing obligation, the Health Benefit
17 Obligations.

18 Thus, it is clear that the District, through its Board of
19 Trustees, has the express power to issue the Bonds and enter into
20 the Indenture of Trust.

21

22 V. THE CONSTITUTIONAL DEBT LIMITATION IS INAPPLICABLE.

23 A. The Health Benefit Obligations Constitute Obligations
24 Imposed By Law.

25 As discussed below, the validity of the Bonds directly
26 depends on the validity of the District's obligations to provide
27 health care benefits to its current and retired employees, since
28 the Bonds are merely refinancing those obligations and therefore

1 share the same characterization. Therefore, the initial question
2 is whether the Health Benefit Obligations are valid obligations of
3 the District.

4 Article XVI, Section 16 of the California Constitution (the
5 "Constitutional Debt Limitation") restricts the power of certain
6 local government entities, including school districts, to incur
7 debts without the express approval of the electorate.³ The
8 Constitutional Debt Limitation was aimed at "the practice ... of
9 extravagance and expenditure in engaging in improvements of
10 various kinds which has resulted in an enormous increase of
11 municipal indebtedness." City of Long Beach v. Lisenby (1919) 180
12 Cal. 52, 56. Judicial interpretation, however, has narrowed the
13 applicability of Article XVI, Section 18 by creating several
14 exceptions to the Constitutional Debt Limitation.

15 One such exception is for "obligations imposed by law." The
16 California Supreme Court first recognized this exception in Lewis
17 v. Widber (1893) 99 Cal. 412. There, the California Supreme Court
18 addressed whether payment by the City and County of San Francisco
19 of a municipal employee's salary, which was fixed by statute, for
20 a month of service performed in the preceding fiscal year could be
21 made in the subsequent fiscal year when all of the revenues of the
22 preceding fiscal year had been expended, thus requiring payment of
23 the salary from revenues of the following fiscal year. The City
24 claimed that such payment was barred by the debt limitation
25 provision. The Court held that payment of such officer's salary
26 out of the next year's revenues would not violate the
27 Constitutional Debt Limitation, stating:

28

1 "[T]he stated salary of a public officer fixed by
2 statute is a matter over which the municipality has no
3 control, and with respect to which it has no discretion;
4 and the payment of his salary is a liability established
5 by the legislature at the date of the creation of the
6 office. It, therefore, is not an indebtedness or
7 liability incurred by the municipality within the
8 meaning of said clause of the constitution."

9 Lewis at 413.

10 Subsequent courts have further extended the "obligation
11 imposed by law" exception created in Lewis. See e.g., Lotts v.
12 Board of Park Commissioners (1936) 13 Cal. App. 2d 625 (debt
13 limitation did not bar the city parks department from paying a
14 judgment for back wages since the salary owed was not a debt which
15 could be incurred at the discretion of the board); County of Los
16 Angeles v. Byram (1951) 36 Cal.2d 694 (Constitutional Debt
17 Limitation did not bar payment of the cost of constructing a
18 courthouse where state law required boards of supervisors to
19 provide suitable quarters for the courts since state law
20 established the legislative policy and specifically imposed the
21 execution of it on the board of supervisors); Compton Community
22 College Fed'n of Teachers v. Compton Community College Dist.
23 (1985) 165 Cal. App. 3d 82 (payment of a retroactive salary
24 increase agreed to in collective bargaining negotiations was not
25 barred by the Constitutional Debt Limitation since the district
26 "had a specific duty to employ the teachers needed to provide
27 education to its citizens and to pay them according to a set
28 salary schedule.");⁴ Wright v. Compton Unified Sch. Dist., 46 Cal.
App. 3d 177, 120 Cal. Rptr. 115 (1975) (Constitutional Debt
Limitation did not bar payment of legal services by a school
district for defending its employees in a defamation action

1 because the district had a statutory duty to provide a defense for
2 its employees to civil actions brought against them arising from
3 acts within the scope of their employment).

4 In analyzing the applicability of the obligation imposed by
5 law exception, California courts have drawn a line between
6 "general" legal duties, which are subject to the Constitutional
7 Debt Limitation, and "specific" legal duties, which are exempt
8 from its application. The court in Compton Community College
9 Fed'n of Teachers, supra, referred to this distinction as follows:

10 "The problem is defining what counts as a "specific"
11 legal duty as opposed to only a "general" one. [In
12 County of Los Angeles v. Byram, supra, w]e have already
13 seen that the statute requiring "adequate quarters" for
14 the courts was deemed sufficiently specific to avoid the
15 constitutional debt limitation. So was the duty to have
16 a chief clerk in the registrar of voters office [in
17 Lewis v. Widber, supra]. In contrast, the statutory duty
18 to bury indigents was found to be too "general" to
19 justify an exemption for a private undertaker who
20 contracted to provide that service for the city [in
21 Pacific Undertakers v. Widber (1896) 113 Cal.201]." Id
22 at 91-92.

23 In Compton, the school district entered into a contract late
24 in the academic year agreeing to a salary increase for teachers
25 for that year, which was to be applied retroactively to the
26 beginning of the academic year. The district did not pay the
27 retroactive portion of the salary increase during the same
28 academic year, and in the subsequent year, after all revenues from
the previous year were spent, alleged it was barred from paying
the retroactive portion of the salary increase under the
Constitutional Debt Limitation.

In rejecting the argument that the district had no specific
duty to arrive at any particular salary schedule during collective

1 bargaining negotiations, the court cited state laws making
2 education one of the highest priorities of state and local
3 government (Compton at 92, citing Cal. Const., art. IX, §§ 1, 5,
4 arc. XVI, §8), requiring the district to hire qualified teachers
5 (Compton at 92, citing Ed. C. 72290) and requiring public school
6 employers to meet with employee organizations to negotiate wages
7 and other terms and conditions of employment (Compton at 92,
8 citing Gov.C. 3543.2). Thus, the court held that the law imposed
9 a sufficiently specific legal duty upon the district to provide
10 post-secondary education and to employ members of a certain
11 profession for this purpose, and although the terms of
12 compensation were not established by law and the district had
13 discretion to negotiate those terms, the duty was still
14 sufficiently specific to exempt the retroactive salary increases
15 from the Constitutional Debt Limitation. See Compton at 94.

16 The opinion set forth in Compton provides overwhelming
17 support for the District's position that California law imposes a
18 specific duty upon the District to employ teachers and negotiate
19 the terms and conditions of employment, including the provision of
20 health benefits, thus exempting the Health Benefit Obligations
21 from the Constitutional Debt Limitation.

22 As noted in Compton and equally applicable here, education
23 has been legislatively declared "essential to the preservation of
24 the rights and liberties of the people" (Cal. Const. Art. IX §1)
25 and declared by the California Supreme court as a "fundamental
26 interest" protected by the equal protection provisions of the
27 California Constitution. See Serrano v. Priest (1976) 18 Cal.3d
28 728, 763-67, cert. den. Furthermore, the legislature has granted

1 broad authority to governing boards of school districts to act in
2 any manner which is not in conflict with or inconsistent with any
3 law and which is not in conflict with the purposes for which
4 school districts are established. Ed.C. 35160. The legislature
5 has recognized by statute that school districts have diverse needs
6 unique to their individual communities and programs and should
7 have the flexibility to create their own unique solutions. Ed.C.
8 35160. In order to discharge their constitutional mandate to
9 educate students, school districts must necessarily hire qualified
10 instructors. Finally, as in Compton, the governing board has a
11 specific legal duty to engage in employment negotiations regarding
12 terms and conditions of employment, including the provision of
13 health and welfare benefits. See Gov.C. 3543.2.⁵

14 Thus, the District has a specific legal duty to employ
15 teachers needed to provide education to its students and to
16 negotiate the terms of their compensation. In Compton, the issue
17 was the payment of teachers' salaries. Here, the issue is the
18 payment of premiums for employee health care benefits. Both are
19 terms of employment which school districts are required by law to
20 negotiate in good faith with employee organizations. See Gov.C.
21 3543.2.

22 Although no statute specifically mandated the District to
23 provide post-retirement health care benefits at the time it
24 entered into the Employee Health Care Agreements, thus arguably
25 making the Health Benefit Obligations matters within the
26 "discretion" of the District and therefore subject to the debt
27 limitation provision, it is not necessary that the law set the
28 exact amount of the liability in order for such liability to

1 qualify for exemption from the debt limitation provision. Compton
2 at 93. As long as the law imposes a sufficiently specific duty to
3 perform a certain function on the District it may use some
4 discretion in discharging that duty and still qualify for
5 exemption from the Constitutional Debt Limitation as an obligation
6 imposed by law. Id.

7 Another case illustrating the application of the obligation
8 imposed by law exception is Wright v. Compton Unified Sch. Dist.
9 (1975) 46 Cal.App.3d 177. There, the school district was not
10 relieved of its duty to pay a private lawyer who had represented
11 several district officials and employees who were charged with
12 defamation. The Constitutional Debt Limitation did not relieve
13 the District from paying the lawyer where state law had imposed a
14 duty to provide legal representation in such a case at district
15 expense. This was the case notwithstanding that the law did not
16 set forth a specific total fee or limit the attorney to a certain
17 hourly rate. Rather, it gave the district discretion to use a
18 salaried public lawyer.

19 In so holding, the court stated:

20 "Government Code section 995 expressly imposes upon a
21 public entity... the specific duty to provide a defense
22 for its employees to civil actions brought against them
23 which arise out of acts performed in the scope of their
24 employment. In the instant case, the fulfillment of
25 such duty... took the form of a contract between the
26 district and plaintiff. The obligation represented by
27 the contract, being one imposed upon the district by
28 law, was not subject to the debt limitation... This
conclusion is strengthened by the fact that... [the
district] in employing plaintiff to defend its
employees, discharged its duty in a manner expressly
provided by law. [That is, by employing a private lawyer
as authorized but not mandated under Gov. Code, § 996.]"

28 Compton at 95 citing Wright v. Compton Unified Sch. Dist., supra,

1 46 Cal. App. 3d at 181.

2 In Wright, the specific duty to do something was to provide
3 legal defense. Here, the District's specific duty is to provide
4 an education to its students, to hire qualified teachers and to
5 negotiate the terms of their employment. In both cases, the
6 fulfillment of such duty took the form of a contract. The
7 obligation represented by the contract in Wright, attorney fees,
8 was deemed one imposed by law and not subject to the
9 Constitutional Debt Limitation, even though the district had
10 complete discretion to negotiate compensation levels. Just as in
11 Wright, the District here had discretion to negotiate the terms
12 and conditions of its employees' health benefits in the course of
13 fulfilling its duties. In certain years, the District determined
14 in its discretion that including post-retirement health care
15 benefits in its employee benefit plan was necessary to discharge
16 its duties. Therefore, the obligations incurred by the District
17 to meet such terms, the Health Benefit Obligations, are
18 justifiably excused from the application of the Constitutional
19 Debt Limitation as an obligation imposed by law.

20 Although the District maintains that the foregoing analysis
21 is sufficient to support exclusion of the Health Benefit
22 Obligations from the Constitutional Debt Limitation, the enactment
23 of the Health Insurance Act of 2003 (Labor C. 2120 et seq.) (the
24 "2003 Health Act"), chaptered by the California Secretary of State
25 on October 6, 2003 and effective January 1, 2004, provides further
26 support for the position that an obligation incurred by a school
27 district in order to provide health care benefits to its employees
28 is an obligation imposed by law.

1 The 2003 Health Act was enacted for the purpose of ensuring
2 that working Californians and their families are provided health
3 care coverage. Labor C. 2120.2. The 2003 Health Act mandates
4 that "large" and "medium" employers in California (as defined in
5 the 2003 Health Act), including the District, either provide
6 health care coverage to their employees and their families (see
7 Labor C. 2160), or, alternatively, pay a user fee to the State of
8 California so that the state may serve as purchasing agent to pool
9 those fees to purchase coverage for all working Californians and
10 their families. See Labor C. 2140. Although the 2003 Health Act
11 mandates health care benefits only for "enrollees" (persons
12 working at least 100 hours per month for any individual employer
13 for three months) (Labor C. 2122.2) and certain "dependents" (as
14 defined in Labor C. 2122.2), thus not mandating coverage for
15 retired persons, the 2003 Health Act does not diminish any
16 protection already provided pursuant to collective bargaining
17 agreements or employer-sponsored plans that are more favorable to
18 the employees. Labor C. 2120.3.

19 At the time the 2003 Health Care Act was enacted, the State
20 Legislature included in its findings and declarations that
21 "working Californians and their families should have health
22 insurance coverage", that "most working Californians obtain their
23 health insurance coverage through their employment" and that
24 "persons without health insurance are at risk of financial ruin
25 and that medical debt is the second most common cause of personal
26 bankruptcy in the United States". See Stats 2003 Ch. 673, §1.
27 Thus, although the Health Benefit Obligations were incurred by the
28 District before enactment of the 2003 Health Act, the mandatory

1 nature of the Act, together with the legislative declarations and
2 findings relating to the importance of health benefits in the
3 employment relationship provide compelling evidence that the
4 District had, and continues to have, a legal duty to provide
5 health benefits in order to attract quality teachers. Given the
6 fact that persons without health insurance are at risk of
7 financial ruin, it would have been impossible for the District to
8 attract qualified teachers without incurring the Health Benefit
9 Obligations.

10
11 B. The Bonds Are Obligations Imposed By Law.

12 Because the Health Benefit Obligations are properly
13 characterized as "obligations imposed by law" within the meaning
14 of the Constitutional Debt Limitation, as described in the
15 foregoing analysis, it follows that the Bonds are valid.

16 The California Supreme Court's holding in Long Beach v.
17 Lisenby, supports the conclusion that the bonds issued to
18 refinance obligations imposed by law also are exempt from the
19 Constitutional Debt Limitation. In Lisenby, the City of Long
20 Beach issued warrants for the payment of tort judgments (which the
21 Court determined to be obligations imposed by law) and thereafter
22 adopted an ordinance authorizing the issuance of bonds to
23 refinance the outstanding indebtedness of the City evidenced by
24 the warrants. The court upheld the City's action, concluding that
25 the issuance of bonds to pay outstanding debts merely represented
26 the conversion of the debt into "a more permanent form with an
27 extended time payment." Long Beach, 180 Cal. at 59; accord, City
28 of Los Angeles v. Teed, 112 Cal. 319, 327, 44 P. 580 (1896)

1 (Dicta).

2 Here, the District has previously incurred indebtedness in
3 the form of the Health Benefit Obligations, which qualify as
4 obligations imposed by law. See Section V (A) above. The Bonds
5 merely represent the conversion of that indebtedness into another
6 form with a different payment term, and similarly qualify as
7 obligations imposed by law. As the court concluded in Teed, "[a]
8 bond is not an indebtedness or liability -- it is only the
9 evidence or representative of an indebtedness" Teed, 112
10 Cal. at 327. The District has not yet satisfied its obligations
11 under the Health Care Agreements, it has simply changed the form
12 of its obligation. Therefore, since the indebtedness represented
13 by the Bonds has not changed, the characteristics of that
14 indebtedness remain the same and are transferred to the Bonds.

15 To conclude that the Bonds do not, in essence, mirror or
16 reflect the Health Benefit Obligations would be to find that the
17 Bonds constitute a new or different obligation of the District and
18 would directly contradict the court's finding in Teed that "a mere
19 change in the form of the evidence of indebtedness is not the
20 creation of a new indebtedness." Teed, 112 Cal. at 327.

21 In other words, if it is legally permitted for the District
22 to incur the long-term obligation to pay the Health Benefit
23 Obligations in the first instance, it necessarily follows that it
24 is legally permitted for the District to issue the Bonds to
25 refinance these obligations. If the Court were to hold that the
26 Bonds violate the provisions of Article XVI, Section 16 of the
27 California Constitution, it would follow that the original
28 obligation of the District to provide health care benefits to its

1 employees also violates the Constitutional Debt Limitation .

2

3 VI. THE REQUISITE PROCEDURES UNDER CODE OF CIVIL PROCEDURE
4 SECTIONS 860 ET SEQ. HAVE BEEN SATISFIED, AND ENTRY OF A
5 DEFAULT JUDGMENT IS MERITED.

6 On August 29, 2005, this Court issued its Order under Section
7 861 of the California Code of Civil Procedure requiring that the
8 District serve Defendants herein by: (1) publication of the
9 Summons in *The Oakland Tribune* and (2) by posting a copy of the
10 summons and the complaint in the District administrative offices
11 for a period of three weeks.

12 These notification procedures satisfy the requirements of the
13 validation statutes. Cal. Code Civ. Proc. §861. Despite these
14 various efforts to notify interested persons, as evidenced by the
15 Declaration of Posting, Proof of Publication and Declaration of No
16 Opposition on file herein, no pleading of any type was filed
17 within the statutory, court-ordered time limit.

18 Therefore, this Court's jurisdiction is complete. As stated
19 in California Code of Civil Procedure Section 862:

20 Jurisdiction shall be complete after the date specified
21 in the summons. Any party interested may, not later
22 than the date specified in the summons, appear and
23 contest the legality or validity of the matter sought to
24 be determined.

25 The present validation proceeding is expressly provided for
26 by the Code of Civil Procedure Sections 860, et seq. and
27 Government Code sections 53510 et seq. and similar proceedings
28 have been approved in analogous cases. See, e.g., Graydon v.

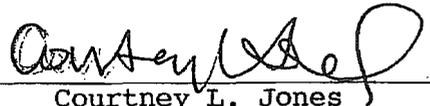
1 Pasadena Redevelopment Agency, 104 Cal. App. 3d 631, 645-46, 164
2 Cal. Rptr. 56, cert. denied, 449 U.S. 983 (1980) (upholding local
3 agency construction contract against attack in light of validation
4 action time limits); Walters, 61 Cal. App. 3d at 468, supra.
5 Therefore, this Court's jurisdiction is complete and default
6 judgment is warranted.

7
8 Dated: September 27, 2005

CHARLES F. ADAMS, ESQ.
COURTNEY L. JONES, ESQ.
Jones Hall
A Professional Law Corporation

THUY THI NGUYEN, ESQ.
Peralta Community College
District

Attorneys for Plaintiff

13
14 By 
15 Courtney L. Jones

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FOOTNOTES

¹ Code of Civil Procedure Section 860 authorizes a public agency "upon the existence of any matter which under any other law is authorized to be determined pursuant to this chapter, and for 60 days thereafter, [to] bring an action in the superior court of the City in which the principal office of the public agency is located to determine the validity of such matter."

² Generally, courts decline to defer to a legislative body's judgment where: (i) the legislative body's actions are not within or closely related to the types of functions traditionally performed by counties, e.g., Byers v. Board of Supervisors (1968) 262 Cal. App. 2d 148, 160; (ii) there was an impermissible delegation of duties required to be performed by the City, e.g., Tax Factors, Inc. v. County of Marin (1937) 20 Cal. App. 2d 79, 85; or (iii) the City was intruding into areas subject to the control and jurisdiction of others, e.g., Hicks v. Board of Supervisors (1977) 69 Cal. App. 3d 228, 241.

³ Article XVI, Section 18 sets forth: "No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for that year, without the assent of two-thirds of the voters thereof, voting at an election to be held for that purpose. . . ."

⁴ In Compton, the court concluded that under the Lotts decision discussed above, all public employee salaries are exempt from the constitutional debt limitation. Compton, 165 Cal. App. 3d at 96. "The clear intent expressed in the constitutional clause was to limit and restrict the power of the municipality as to any indebtedness or liability which it has discretion to incur or not to incur, and in our opinion the salary due an employee is an obligation of the city not responsive to [the constitutional debt limitation]." (Italics added.) Compton, 165 Cal.App.3d at 96, citing Lotts, 13 Cal.App.2d at 635.

⁵ In Compton, the court cited Government Code Section 3542.2 as evidence of the specific duty imposed on schools to meet with employee organizations and negotiate salary terms with their employees. The same statute requires negotiation regarding health and welfare benefits, as follows: "The scope of representation [of the employee organization] shall be limited to matters relating to wages, hours of employment, and other terms and conditions of employment. "Terms and conditions of employment" mean health and welfare benefits as defined by section 53200...". Government Code Section 53200 subd. (d) defines Health and Welfare Benefits as "any one or more of the following: hospital, medical, surgical, disability, legal expense or related benefits including but not limited to, medical, dental, life, legal expense, and income protection insurance or benefits..."

ORIGINAL



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10 Peralta Community College District
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12 Oakland, California 94606
13 Telephone: (510) 466-7200
14 ttnguyen@peralta.edu

15 Attorneys for Plaintiff

ENDORSED
FILED
ALAMEDA COUNTY
NOV 07 2005
CLERK OF THE SUPERIOR COURT
BY *[Signature]*

16 IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA
17 IN AND FOR THE COUNTY OF ALAMEDA
18 UNLIMITED CIVIL JURISDICTION

19 PERALTA COMMUNITY COLLEGE DISTRICT,)
20 Plaintiff,)
21 vs.)
22 ALL PERSONS INTERESTED IN THE)
23 MATTER OF THE ISSUANCE AND SALE OF)
24 BONDS FOR THE PURPOSE OF REFUNDING)
25 CERTAIN OBLIGATIONS OWED BY THE)
26 PERALTA COMMUNITY COLLEGE DISTRICT)
27 IN RESPECT OF EMPLOYEE HEALTH CARE)
28 BENEFITS, AND ALL PROCEEDINGS)
LEADING THERETO, INCLUDING THE)
ADOPTION OF A RESOLUTION)
AUTHORIZING THE ISSUANCE AND SALE)
OF SUCH BONDS,)
Defendants.)

No. RG 05-228682

~~PROPOSED~~
JUDGMENT
(§860 et seq. of the
Code of Civil Procedure)
[Fee Exemption:
Govt. Code § 6103]

gcr

29 The motion of Plaintiff, Peralta Community College District,
30 for a default judgment having come before the Court, and the Court

1 having reviewed the Memorandum of Points and Authorities In
2 Support of Plaintiff's Application For Default Judgment, the
3 Declarations in support thereof and the papers on file in this
4 action, and good cause appearing therefor;

5 IT IS HEREBY ORDERED, ADJUDGED AND DECREED as follows:

6 (1) This action is properly brought under §53511 of the
7 Government Code and §860 of the Code of Civil Procedure.

8 (2) All proceedings by and for Plaintiff in connection with
9 the Resolution, the Bonds and the refunding of the Health Benefit
10 Obligations of the District, and any related contracts or
11 agreements approved by the Resolution or contemplated by the Board
12 of Trustees of the District in connection with the issuance of the
13 Bonds and the refunding of the Health Benefit Obligations, were
14 and are valid, legal and binding obligations in accordance with
15 their terms and were and are in conformity with the applicable
16 provisions of all laws and enactments at any time in force or
17 controlling upon such proceedings, whether imposed by law,
18 constitution, statute or ordinance, and whether federal, state or
19 municipal, including but not limited to the provisions of Article
20 XVI, Section 18, of the California Constitution.

21 (3) All conditions, things and acts required by law to
22 exist, happen or be performed precedent to the adoption of the
23 Resolution, and the terms and conditions thereof, and including
24 the authorization for the issuance of the Bonds and the execution
25 and delivery of all related contracts or agreements approved by
26 the Resolution or contemplated by the Board of Trustees of the
27 District in connection with the issuance of the Bonds, have

28

1 existed, happened and been performed in the time, form and manner
2 required by law.

3 (4) The District has the authority under California law to
4 issue the Bonds and to execute and deliver the Indenture and all
5 contracts and agreements enacted pursuant thereto, and the
6 District has covenanted in the Indenture to use the proceeds of
7 the Bonds and the earnings on the investment thereof solely for
8 the purpose of refunding the Health Benefit Obligations and paying
9 financing costs relating thereto.

10 (5) The District has the authority under California law to
11 provide for the refunding of its obligations, by issuing the Bonds
12 and applying the proceeds of the Bonds to the payment and
13 refunding of its Health Benefit Obligations.

14 (6) The District will be obligated to satisfy its
15 obligations under the Bonds from any generally available funds of
16 the District, and the Board of Trustees of the District will be
17 obligated to make all annual appropriations of such funds as may
18 be required to satisfy its annual obligations under the Bonds.

19 (7) The Bonds and all agreements related thereto, are exempt
20 from and not subject to the debt limitations set forth in Article
21 XVI, Section 18, of the California Constitution.

22 (8) The Bonds (and all contracts and agreements related
23 thereto) are obligations imposed by law.

24 (9) The Bonds and any and all contracts and agreements
25 executed and delivered in connection therewith are valid and
26 binding obligations under the Constitution and laws of the State
27 of California.

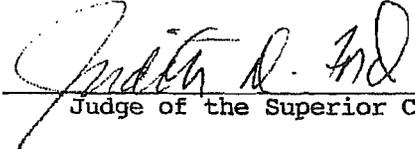
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1 (10) The District's incurrence of any and all indebtedness
2 and/or liability in connection with the Bonds (and all contracts
3 and agreements related thereto) is exempt from and not subject to
4 the debt limitations set forth in Article XVI, Section 18, of the
5 California Constitution.

6 (11) The institution by any person of any action or
7 proceeding raising any issue as to which this judgment is binding
8 and conclusive (which includes all matters herein adjudicated or
9 which at the time of this judgment could have been adjudicated),
10 against the Plaintiff and against all other persons is hereby
11 permanently enjoined.

12 Judgment is hereby entered in favor of the Plaintiff, Peralta
13 Community College District.

14 Dated: 11/7/05, 2005

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17 _____
18 Judge of the Superior Court
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JCH



2005 Board of Trustee Resolutions

RESOLUTION NO. 05/06-08

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE DISTRICT AUTHORIZING
ISSUANCE OF BONDS IN THE AGGREGATE PRINCIPAL
AMOUNT OF NOT TO EXCEED \$250,000,000 TO REFINANCE
EMPLOYEE HEALTH BENEFIT OBLIGATIONS OF THE
DISTRICT**

WHEREAS, the Peralta Community College District (the "District") is obligated to pay health care benefits for certain current District employees and retired District employees (the "Health Benefit Obligations"); and

WHEREAS, the annual obligation of the District to pay the Health Benefit Obligations is subject to fluctuation from year to year in future year due to the differentiation in benefits between certain groups of employees and other factors; and

WHEREAS, the District is authorized under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), to issue its bonds for the purpose of refunding outstanding obligations of the District such as the Health Benefit Obligations; and

WHEREAS, in order to refund the Health Benefit Obligations and thereby provide a more orderly and constant level of payments in respect of the Health Benefit Obligations, the District has determined that it is in the best financial interests of the District to issue bonds of the District under the Bond Law, the proceeds of which will be applied to pay the Health Benefit Obligations as they come due and payable; and

WHEREAS, the Board of Trustees wishes at this time to authorize the issuance of such bonds and the institution of judicial proceedings to determine the validity thereof;

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Peralta Community College District as follows:

Section 1. Authorization of Bonds. The Board of Trustees hereby authorizes the issuance of bonds of the District under the Bond Law in the aggregate principal amount of not to exceed \$250,000,000 (the "Bonds") for the purpose of refunding the Health Benefit Obligations. The Bonds may be issued in one or more series from time to time by the District, as determined by the Board of Trustees.

Section 2. Material Terms of the Bonds. The Bonds shall be issued under an Indenture of Trust between the District and U.S. Bank National Association, as trustee, the form of which is subject to final approval by resolution of the Board of Trustees to be adopted following the successful conclusion of the proceedings authorized under Section 3. The Indenture of Trust shall provide the following material terms and conditions applicable to the Bonds:

- (a) the term of the Bonds shall not exceed 45 years;

- (b) interest on the Bonds shall be computed at either a fixed or adjustable rate of interest;
- (c) interest on the Bonds shall be included in gross income of the owners thereof for federal income tax purposes;
- (d) principal of and interest on the Bonds shall be payable from any source of legally available funds of the District, including but not limited to amounts held in the General Fund of the District; and
- (e) proceeds of the Bonds shall be held and invested by the District, and such proceeds and the earnings on the investment thereof shall be applied to pay the Health Benefit Obligations of the District as they become due and payable.

Section 3. Institution of Judicial Validation Proceedings. In order to determine the validity of the Bonds which are hereby authorized to be issued under the provisions of Section 1, the Board of Trustees hereby authorizes the law firm of Jones Hall, A Professional Law Corporation, in concert with general counsel to the District, to prepare and cause to be filed and prosecuted to completion all proceedings required for the judicial validation of the bonds in the Superior Court of Alameda County, under and under the provisions of Sections 860 et seq. of the Code of Civil Procedure of the State of California.

Section 4. Sale of the Bonds. The Bonds shall be sold to an underwriting firm to be selected by the District in accordance with a resolution of the Board of Trustees adopted following the successful conclusion of the proceedings authorized under Section 3.

Section 5. Engagement of Professional Services. In connection with the issuance and sale of the Bonds, the District hereby appoints the firms of Dale Scott & Company and Mark Harris of the Pineapple Group to act as financial advisors to the District, the firm of Jones Hall, A Professional Law Corporation, to act as bond counsel to the District, and U.S. Bank National Association to act as trustee for the Bonds. The Vice Chancellor of Financial Services is authorized and directed to execute an agreement with each of such firms, in the respective forms on file with the Clerk of the Board. As provided in each such agreement, compensation payable to each firm is entirely contingent upon the successful issuance and sale of the Bonds.

Section 6. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

I hereby certify that the foregoing Resolution was passed and adopted by the Board of Trustees of the Peralta Community College District at a regular meeting thereof duly held on July 28, 2005 by a majority vote of all of its members.

Adopted by the following votes:

AYES: Trustees Clifton, Gonzalez Yuen, Gulassa, Handy, Hodge, President Riley,
Student Trustee advisory vote Andrews & Watkins-Tanner
NOES: None
ABSENT: None

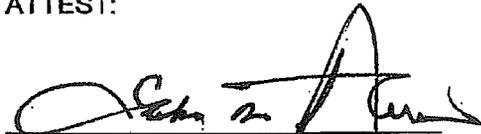
**BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE
DISTRICT**

By



President

ATTEST:



Clerk of the Board

RESOLUTION NO. 05/06-28

**RESOLUTION OF THE BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE DISTRICT AUTHORIZING
THE SALE OF LIMITED OBLIGATION BONDS TO REFINANCE
RETIREE HEALTH BENEFIT OBLIGATIONS OF THE
DISTRICT, APPROVING FINAL FORM OF FINANCING
DOCUMENTS, DESIGNATING INVESTMENT MANAGEMENT
FIRM AND APPROVING OFFICIAL ACTIONS**

WHEREAS, the Peralta Community College District (the "District") is obligated to pay retiree health care benefits for certain current District employees and retired District employees (the "Retiree Health Benefit Obligations"); and

WHEREAS, the annual obligation of the District to pay the Retiree Health Benefit Obligations is subject to fluctuation from year to year in future year due to the differentiation in benefits between certain groups of employees and other factors; and

WHEREAS, the District is authorized under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), to issue its bonds for the purpose of refunding outstanding obligations of the District such as the Retiree Health Benefit Obligations; and

WHEREAS, on July 28, 2005, the Board of Trustees of the District adopted its Resolution No. 05-06-08 (the "Authorizing Resolution") authorizing the issuance of bonds under the Bond Law in the aggregate principal amount of not to exceed \$250,000,000 (the "Bonds"), to be payable from the General Fund of the District, the proceeds of which will be applied to pay the Retiree Health Benefit Obligations as they come due and payable, thereby refunding the Retiree Health Benefit Obligations; and

WHEREAS, the issuance of the Bonds has been validated by judgment of the Alameda County Superior Court rendered on November 7, 2005; and

WHEREAS, the Board of Trustees wishes at this time to approve the final form of the documents relating to the issuance and sale of an initial series of the Bonds, to approve matters relating to the investment of the proceeds thereof, and to approve official actions relating to the closing of such series of Bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Peralta Community College District as follows:

Section 1. Form of 2005 Bonds. The Board of Trustees hereby authorizes the sale and delivery of an initial series of the Bonds in the aggregate principal amount of not to exceed \$154,000,000 (the "2005 Bonds"), consisting of a series of Bonds bearing interest at a fixed rate of interest to maturity, and multiple series of Bonds on which the interest rate compounds for a designated period and then converts to an auction rate or other interest mode in accordance with the Convertible Auction Rate Securities (CARSSM) program of Lehman Brothers Inc. as underwriter (the "Underwriter"). The

exact principal amount of the Bonds shall be determined based on the amount required to refinance the Retiree Health Benefit Obligations in the initial amount of \$150,000,000. Nothing in this Resolution precludes the District from selling additional series of the Bonds from time to time as may be authorized by one or more resolutions hereafter adopted by the Board of Trustees.

Section 2. Sale of 2005 Bonds to Underwriter. The Board of Trustees hereby authorizes the sale of the 2005 Bonds to the Underwriter under the Bond Purchase Contract in substantially the form on file with the Clerk of the Board together with any additions thereto or changes therein approved by the Chancellor or the Vice Chancellor for Budget and Finance (each, an "Authorized Officer"), whose execution thereof shall be conclusive evidence of such approval. The Board of Trustees hereby delegates to an Authorized Officer the authority to accept an offer from the Underwriter to purchase the 2005 Bonds and to execute the Purchase Contract for and in the name and on behalf of the District. The amount of Underwriter's discount may not exceed 0.75% of the par amount of the 2005 Bonds and the fixed rate of interest on the 2005 Bonds (prior to any conversion to an auction rate or other interest mode) may not exceed 6.50% per annum.

Section 3. Approval of Form of Indenture. The Board of Trustees hereby approves the Indenture of Trust between the District and Deutsche Bank National Trust Company, as trustee (the "Trustee"), prescribing the terms and provisions of the 2005 Bonds, in substantially the form on file with the Clerk of the Board together with any additions thereto or changes therein deemed necessary or advisable by an Authorized Officer. An Authorized Officer is hereby authorized and directed to execute, and the Clerk of the Board is hereby authorized and directed to attest and affix the seal of the District to, the final form of the Indenture of Trust for and in the name and on behalf of the District. The Board hereby authorizes the delivery and performance of the Indenture of Trust. As provided in the Indenture of Trust, the Bonds shall be insured by Financial Guaranty Insurance Company ("FGIC").

Section 4. Approval of Preliminary Official Statement. The Board of Trustees hereby approves the form of Preliminary Official Statement of the District relating to the 2005 Bonds in substantially the form on file with the Clerk of the Board. An Authorized Officer is hereby authorized to certify that the Preliminary Official Statement is as of its date "deemed final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Distribution of the Preliminary Official Statement by the Underwriter is hereby approved. An Authorized Officer is hereby authorized and directed to cause to be prepared a final official statement in substantially the form of the preliminary official statement which such changes or additions to reflect the terms of sale of the 2005 Bonds and to comply with applicable federal securities laws as such Authorized Officer shall approve after consultation with the District's General Counsel and Bond Counsel, the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The Board of Trustees hereby authorizes the distribution of the Final Official Statement by the Underwriter. The Final Official Statement shall be executed in the name and on behalf of the District by an Authorized Officer.

Section 5. Taxable Status of the 2005 Bonds. The Board of Trustees hereby determines that interest payable on the 2005 Bonds will be subject to federal income taxation, and that the provisions of Section 5900 et seq. of the California Government Code (the "Taxable Bond Act") apply to the 2005 Bonds. The District may take any

action and exercise any power permitted to be taken by it under the Taxable Bond Act in connection with the issuance and sale of the 2005 Bonds and the investment of the proceeds thereof as may be deemed advisable by an Authorized Officer.

Section 6. Investment of Bond Proceeds. As provided in Section 53584 of the Bond Law, in Section 5903(e) of the Taxable Bond Act and in Section 53620 of the California Government Code, amounts held by the Trustee in the Retiree Health Benefit Program Fund intended for the payment of Retiree Health Benefit Obligations shall be invested in Program Fund Investments as that term is defined in the Indenture of Trust, which are deemed prudent for the investment and reinvestment of such amounts in accordance with the Indenture of Trust and this Resolution. The authority to invest and reinvest amounts on deposit in the Retiree Health Benefit Program Fund intended for the payment of Retiree Health Benefit Obligations, and to sell or exchange securities purchased for that purpose, is hereby delegated by the Board of Trustees to the Vice Chancellor for Budget and Finance, or such other officer as shall serve as the chief financial officer of the District from time to time. Such officers shall exercise the authority granted to them under this Section 6 upon the advice of and consultation with the investment management firm which is appointed under Section 7, consistent with the requirements of Section 53622 of the Government Code of the State of California and the provisions of the Indenture of Trust. In addition, the Board of Trustees hereby approves an amendment of the agreement between the District and the District's financial advisor for the purpose of providing on-going review of the investment program, in the form on file with the Clerk of the Board, and the Vice Chancellor for Budget and Finance is hereby authorized and directed to execute such amendment in the name of the District.

Section 7. Appointment of Investment Management Firm. The Board of Trustees hereby engages the firm of Lehman Brothers Inc. to provide investment management services for the investment and reinvestment of amounts held in the Retiree Health Benefit Program Fund which is established under the Indenture of Trust for the purpose of paying the Retiree Health Benefit Obligations. An Authorized Officer is hereby authorized and directed to enter into an agreement with such firm to provide such services.

Section 8. Official Actions. The President of the Board, Clerk of the Board, Chancellor, Vice Chancellor for Budget and Finance and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful sale and delivery of the 2005 Bonds and the consummation of the transactions approved herein, including but not limited to the approval of transactions relating to the designation of an auction agent and broker-dealer for the Bonds and the approval of agreements and commitments with FGIC. All actions heretofore taken by such officers or their designees are hereby ratified, confirmed and approved.

Section 9. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

I hereby certify that the foregoing Resolution was passed and adopted by the Board of Trustees of the Peralta Community College District at a regular meeting thereof duly held on December 13, 2005, by a majority vote of all of its members.

Adopted by the following votes:

AYES: Trustees Clifton, Gonzalez Yuen, Gulassa, Hodge, Riley,
Withrow, President Handy, Student Trustees Andrews & Watkins-Tan

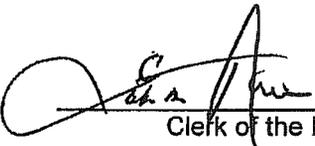
NOES: None

ABSENT: None

**BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE
DISTRICT**

By  Hon. Linda Handy
President

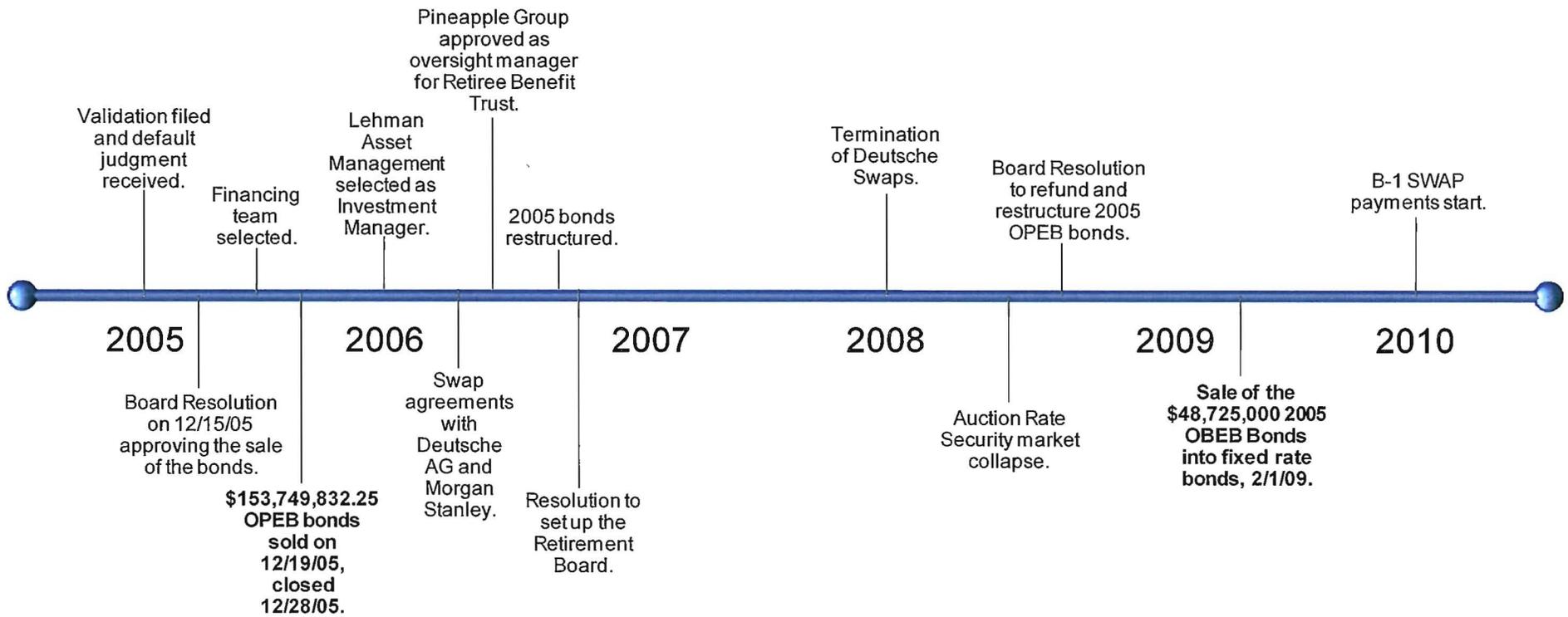
ATTEST:

 Elihu M. Harris, Chancellor
Clerk of the Board



OPEB Financing Timeline

Abbreviated Timeline





Definitions

Definitions*

Annual Required Contribution (ARC): The agency's required OPEB contribution for the year. Includes normal cost and amortized unfunded actuarial accrued liabilities.

Auction Rate Securities (ARS): are variable rate bond whose interest rates is rest under a Dutch auction process.

Current Interest Bond: a bond that pays interest to a holder on a periodic basis.

Capital Appreciation Bond: a bond that pays no interest. Principal is reinvested at a stated rate until maturity. .At maturity, initial principal amount and compounded interest are payable.

Convertible bond: a capital appreciation bond that changes to an interesting bearing bond.

Debt Service Reserve Fund or Reserve Fund: A fund in which holds moneys used to pay debt service if pledged revenues are insufficient.

Fixed Rate: an interest rate that is the same for the life of the security.

Fixed Income Security: a bond that has a fixed set of payments.

Liquidity: ability of to convert a security into cash.

Liquidity facility: is a financial instrument such as a letter of credit, a standby bond purchase agreement or other agreement used to provide liquidity purchase securities have been tendered but cannot be immediately remarketed to new investors. The provider of the liquidity facility purchases the securities until they can be remarketed.

Other Post Employment Benefits: Nonpension post employment benefits earned to employees

Remarketing: The process of reselling securities that have been tendered by previous owners

Sinking Fund: A fund into which an issuer makes deposits to redeem securities for timely availability of funds to pay debt service.

Unfunded Actuarial Accrued Liability: The difference between the actuarial accrued liability and the actuarial value of assets accumulated to finance that obligation.

Variable Rate: An interest rate on a security changes at intervals according to a predetermined index or formula.

Variable Rate Demand Obligations (VRDO): Are variable rate obligations with a long maturity but an interest rate that resets periodically.

Validation: A procedure whereby the legality of a proposed issuance of securities is determined, often through a court proceeding, in advance of the issuance of the bonds.

*References from MSRB, SIFMA, Moody's Municipal Guide



2009 Board of Trustee Resolutions

**Peralta Community College District
RESOLUTION NO. 08/09-10**

RESOLUTION OF THE BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE DISTRICT AUTHORIZING
THE ISSUANCE AND SALE OF REFUNDING BONDS TO
REFINANCE A PORTION OF THE OUTSTANDING 2005 OPEB
BONDS, APPROVING FINAL FORM OF FINANCING
DOCUMENTS AND APPROVING OFFICIAL ACTIONS

WHEREAS, the Peralta Community College District (the "District") is obligated to pay retiree health care benefits for certain current District employees and retired District employees (the "Retiree Health Benefit Obligations"); and

WHEREAS, in order to refund the Retiree Health Benefit Obligations, the District has previously issued its \$153,749,832.25 aggregate principal amount of Peralta Community College District Taxable 2005 Limited Obligation OPEB (Other Post-Employment Benefit) Bonds (the "2005 Bonds") under an Indenture of Trust dated as of December 1, 2005, as amended, between the District and Deutsche Bank National Trust Company, as trustee; and

WHEREAS, the principal of and interest on the 2005 Bonds are payable from any source of legally available funds of the District, including amounts on deposit in the General Fund of the District; and

WHEREAS, the District wishes at this time to refund a portion of the outstanding 2005 Bonds, consisting of those 2005 Bonds which mature on August 1 in each of the years 2009, 2010 and 2015 (the "Refunded 2005 Bonds"), in order to re-structure the indebtedness represented thereby and to avoid the conversion of certain of the Refunded 2005 Bonds to auction rate securities on August 5, 2010; and

WHEREAS, in order to provide the amounts required to refund the Refunded 2005 Bonds, the District has determined to issue its Peralta Community College District 2008 Taxable OPEB (Other Post-Employment Benefit) Refunding Bonds (the "Bonds") under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Refunding Bond Law"); and

WHEREAS, the Board of Trustees wishes at this time to approve the final form of the documents relating to the issuance and sale of the Bonds and to approve official actions relating to the closing of the Bonds;

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Peralta Community College District as follows:

1) **Section 1. Authorization of Bonds.** The Board of Trustees hereby authorizes the issuance of the Bonds under the Refunding Bond Law in the maximum principal amount of \$55,000,000. The Bonds will be issued for the purpose of providing funds to refund and defease the outstanding Refunded 2005 Bonds. The Bonds shall be issued

under an Indenture of Trust between the District and Deutsche Bank National Trust Company, as trustee, in substantially the form on file with the Clerk of the Board together with any additions thereto or changes therein approved by the Chancellor or the Vice Chancellor for Budget and Finance (each, an "Authorized Officer"), whose execution thereof shall be conclusive evidence of such approval. An Authorized Officer is hereby authorized and directed for and in the name and on behalf of the District to execute and attest the final form of the Indenture of Trust. The Board of Trustees hereby authorizes the delivery and performance of the Indenture of Trust. This final, definitized action shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 2. Refunding of Refunded 2005 Bonds. The Board of Trustees hereby authorizes the refunding of the Refunded 2005 Bonds under Irrevocable Refunding Instructions given by the District to Deutsche Bank National Trust Company, as trustee for the 2005 Bonds, in substantially the form on file with the Clerk of the Board together with any additions thereto or changes therein approved by an Authorized Officer, whose execution thereof shall be conclusive evidence of such approval. The Chancellor is hereby authorized and directed to analyze and attest to the final form of the Irrevocable Refunding Instructions. The Board of Trustees hereby authorizes the delivery and performance of the Irrevocable Refunding Instructions. This final, definitized action shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 3. Negotiated Sale of Bonds. The Board of Trustees hereby calls for the negotiated sale of the Bonds to an underwriting or investment banking firm, Stone and Youngberg (the "Underwriter"). The Bonds shall be sold pursuant to the Bond Purchase Agreement in substantially the form on file with the Clerk of the Board with such changes therein, deletions therefrom and modifications thereto as the Authorized Officer may approve, such approval to be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement. The true interest cost of the Bonds shall not exceed 8.00% per annum and the Underwriter's discount may not exceed 1.00% of the aggregate principal amount of the Bonds. The Board hereby authorizes an Authority Officer to execute and deliver the final form of the Bond Purchase Agreement in the name and on behalf of the District. This final, definitized action shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 4. Official Statement. The Board of Trustees hereby approves, and hereby deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Bonds in substantially the form on file with the Clerk of the Board. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to the Final Official Statement, and the execution thereof by an Authorized Officer shall be conclusive evidence of approval of any such changes and additions. The Board of Trustees hereby authorizes the distribution of the Final Official Statement by the Underwriter. The Final Official Statement shall be executed in the name and on behalf of the District. This final, definitized action shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 5. Taxable Status of the Bonds. The Board of Trustees hereby determines that interest payable on the Bonds will be subject to federal income taxation, and that the provisions of Section 5900 et seq. of the California Government Code (the

"Taxable Bond Act") apply to the Bonds. The District may take any action and exercise any power permitted to be taken by it under the Taxable Bond Act in connection with the issuance and sale of the Bonds as may be deemed advisable by the Chancellor. This final, definitized action shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 6. Official Actions. The President of the Board, Clerk of the Board, Chancellor, Vice Chancellor for Budget and Finance and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful sale and delivery of the Bonds and the consummation of the transactions approved herein. However, all final, definitized actions shall be reported back to the Board of Trustees, sunshined in open session, and recorded in the Board meeting minutes.

Section 7. Effective Date. This Resolution shall take effect immediately upon its passage and adoption.

I hereby certify that the foregoing Resolution was passed and adopted by the Board of Trustees of the Peralta Community College District at a regular meeting thereof duly held on October 28, 2008, by a majority vote of all of its members.

Adopted by the following votes:

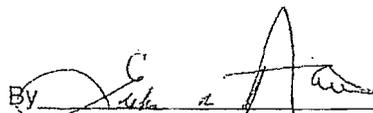
AYES: Trustees Gulassa, González Yuen, Withrow, Handy, Riley, Hodge and Guillén.

NOES: None

ABSENT: None

ABSTAIN: None

BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE
DISTRICT

By  Secretary of the Board

\$48,725,000
PERALTA COMMUNITY COLLEGE DISTRICT
2009 Taxable OPEB
(Other Post-Employment Benefit)
Refunding Bonds

CERTIFICATE REGARDING RESOLUTION 08/09-20

The undersigned hereby states and certifies that:

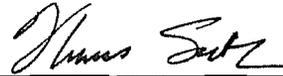
(i) I am the duly appointed, qualified and acting Vice Chancellor for Finance and Administration of the Peralta Community College District, a community college district duly organized and existing under the Constitution and laws of the State of California (the "District"), and as such, I am familiar with the facts herein certified and am authorized and am qualified to certify the same; and

(ii) attached hereto is a true, correct and complete copy of Resolution 08/09-20 entitled "Resolution of the Board of Trustees of the Peralta Community College District Approving the Form of the Preliminary Official Statement and Indenture of Trust Relating to the 2008 Taxable OPEB (Other Post-Employment Benefit) Refunding Bonds of the District" adopted by the Board of Trustees of the District on November 18, 2008, which resolution has not been amended, modified, supplemented, rescinded or repealed and remains in full force and effect as of the date hereof.

Dated: February 19, 2009

**PERALTA COMMUNITY COLLEGE
DISTRICT**

By: _____



Thomas L. Smith

Vice Chancellor for Finance and Administration

RESOLUTION NO. 08/09-20**RESOLUTION OF THE BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE DISTRICT APPROVING
THE FORM OF PRELIMINARY OFFICIAL STATEMENT AND
INDENTURE OF TRUST RELATING TO THE 2008 TAXABLE
OPEB (OTHER POST-EMPLOYMENT BENEFIT) REFUNDING
BONDS OF THE DISTRICT**

WHEREAS, the Peralta Community College District (the "District") is obligated to pay retiree health care benefits for certain current District employees and retired District employees (the "Retiree Health Benefit Obligations"); and

WHEREAS, in order to refund the Retiree Health Benefit Obligations, the District has previously issued its \$153,749,832.25 aggregate principal amount of Peralta Community College District Taxable 2005 Limited Obligation OPEB (Other Post-Employment Benefit) Bonds (the "2005 Bonds") under an Indenture of Trust dated as of December 1, 2005, as amended, between the District and Deutsche Bank National Trust Company, as trustee; and

WHEREAS, at its meeting on October 28, 2008, the Board of Trustees of the District adopted its Resolution No. 08/09-10 authorizing the issuance and sale of 2008 Taxable OPEB (Other Post-Employment Benefit) Refunding Bonds in the principal amount of not to exceed \$55 million (the "Refunding Bonds") for the purpose of refunding certain maturities of the 2005 Bonds; and

WHEREAS, the Board of Trustees has been presented with the forms of the Preliminary Official Statement and the Indenture of Trust relating to the Refunding Bonds, and wishes to take action at this time approving said documents;

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the Peralta Community College District as follows:

Section 1. Approval of Preliminary Official Statement. The Board of Trustees hereby approves, and hereby deems nearly final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, the Preliminary Official Statement describing the Refunding Bonds in substantially the form presented to the Board members, together with any additions thereto or changes therein approved by the Chancellor or the Vice Chancellor for Finance and Administration (each, an "Authorized Officers"), whose execution thereof shall be conclusive evidence of such approval. An Authorized Officer is hereby authorized to execute an appropriate certificate stating the Board of Trustees' determination that the Preliminary Official Statement has been deemed nearly final within the meaning of such Rule. Distribution of the Preliminary Official Statement by Stone & Youngberg LLC, as underwriter of the Refunding Bonds (the "Underwriter") is hereby approved.

Section 2. Preparation and Distribution of Final Official Statement. An Authorized Officer is hereby authorized and directed to approve any changes in or additions to the Preliminary Official Statement as required to cause it to be put into final

I hereby certify that the foregoing Resolution was passed and adopted by the Board of Trustees of the Peralta Community College District at a regular meeting thereof duly held on November 18, 2008, by a majority vote of all of its members.

Adopted by the following votes:

AYES:

NOES:

ABSENT:

**BOARD OF TRUSTEES OF THE
PERALTA COMMUNITY COLLEGE
DISTRICT**

By _____
President

ATTEST:

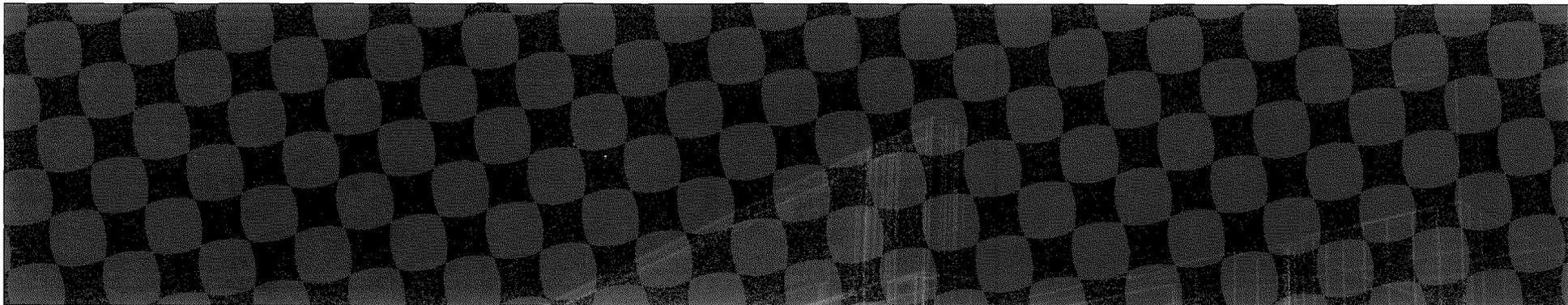
Clerk of the Board

Divider

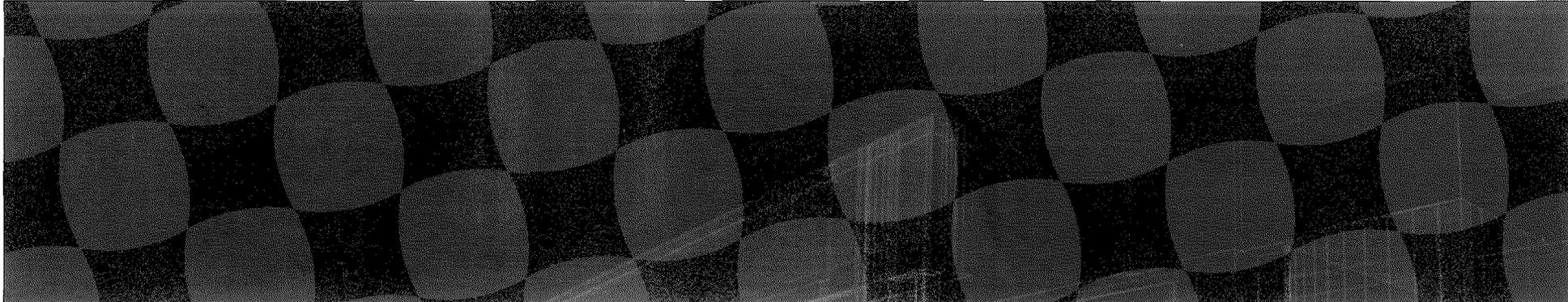


Swap Financial Swap Basics

Inside the Swap Market



Swaps 101: Swap Basics

A decorative footer pattern consisting of a grid of overlapping, rounded squares in shades of gray and black, creating a textured, geometric effect.

Topics

I. Swaps 101: Swap Basics

II. Inside the Swap Market

III. Swap Risks

IV. Peralta's Swap

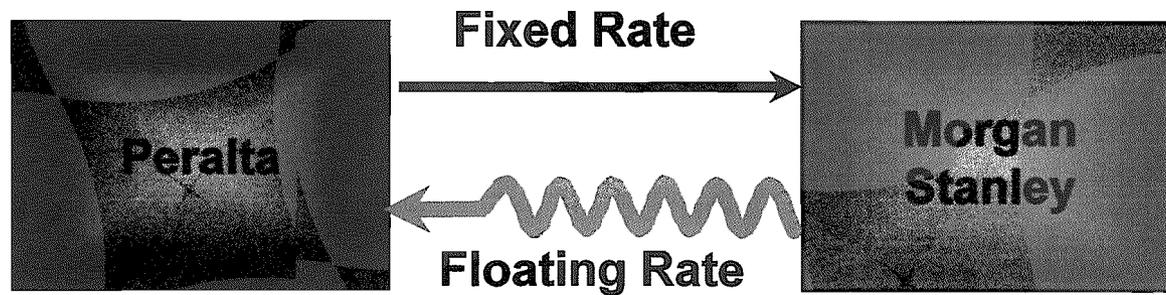
What are Swaps?

- Swaps are an alternative way to access the market for capital.
- Major borrowers evaluate the swap market and the bond market side by side.
- Typical swap:
 - 2 parties (“counterparties”).
 - Exchange different forms of interest rates.
 - Defined period.
 - Usually, one party pays fixed and the other pays floating.

Why Swap?

- **Savings:** Provide substantially better economic results than those available in the conventional bond market.
- **Flexibility:** Provide a solution to a financial problem which is not available in the conventional market.
- **Speed:** Take advantage of market opportunity swiftly.

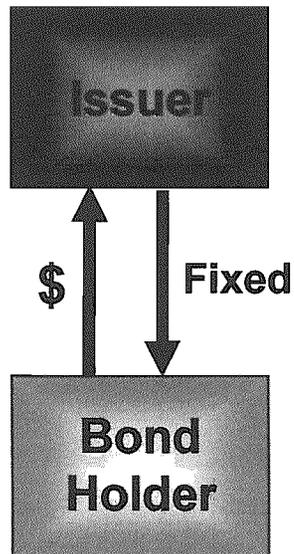
Simple Swap Mechanics



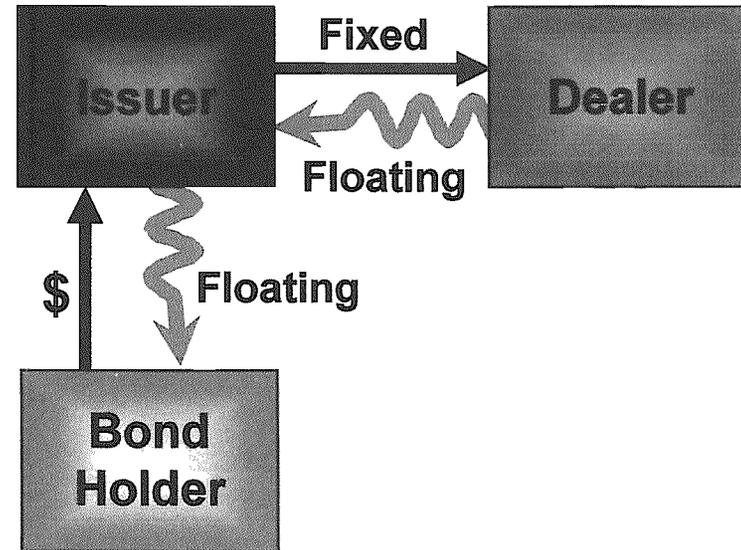
- Swap: A two-party contract to exchange cash flows.
- Typical: One party pays fixed, one party pays floating.
- No principal changes hands (key term: “notional amount”).

Synthetic Fixed

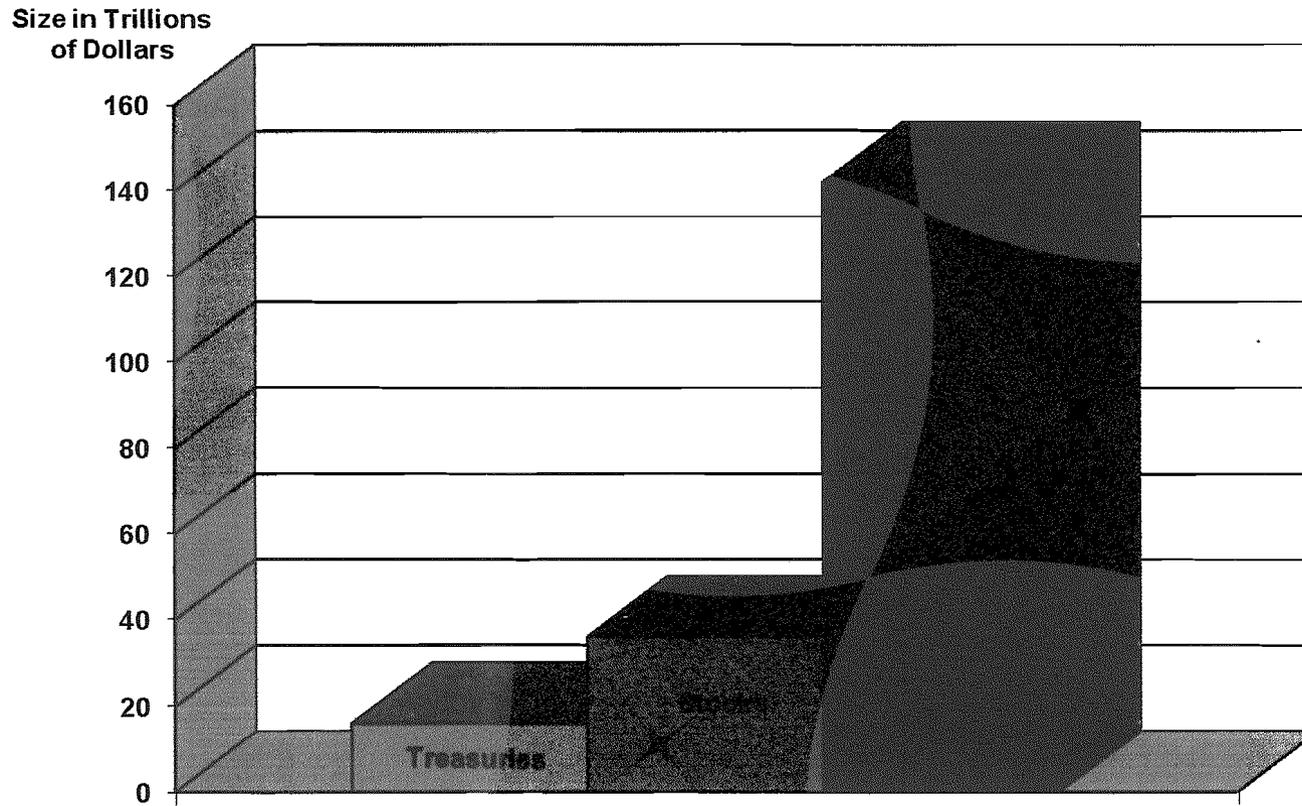
Fixed Rate Bond



Synthetic Fixed Rate



A Huge, Liquid Market



Role of the Dealer

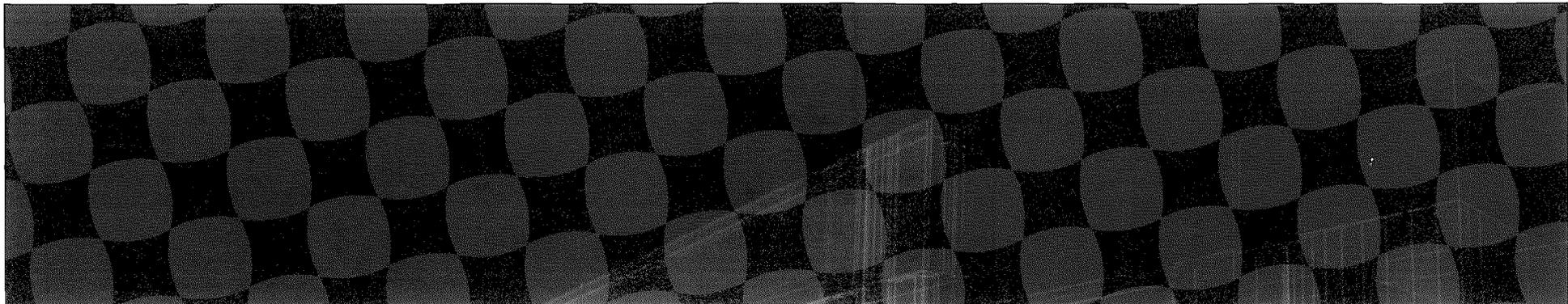
- Unable to perfectly match client trades.
- Must be “market maker”.
- Credit intermediation – one end-user is not exposed to another’s credit.
- Processing, bookkeeping, payment calculation.



How Swap Dealers Make Money

- Swap dealers don't make bets - internal rules require traders to hedge most positions.
- Dealers make money by earning a spread between the price charged to the client and cost at which they hedge (the "bid-offered spread").

Swap Risks



Risk #1: Termination Risk

- Termination Risk is the risk that the swap might be terminated prior to its scheduled maturity.
 - On day one and at maturity, a swap usually has zero value.
 - The story is different in between.

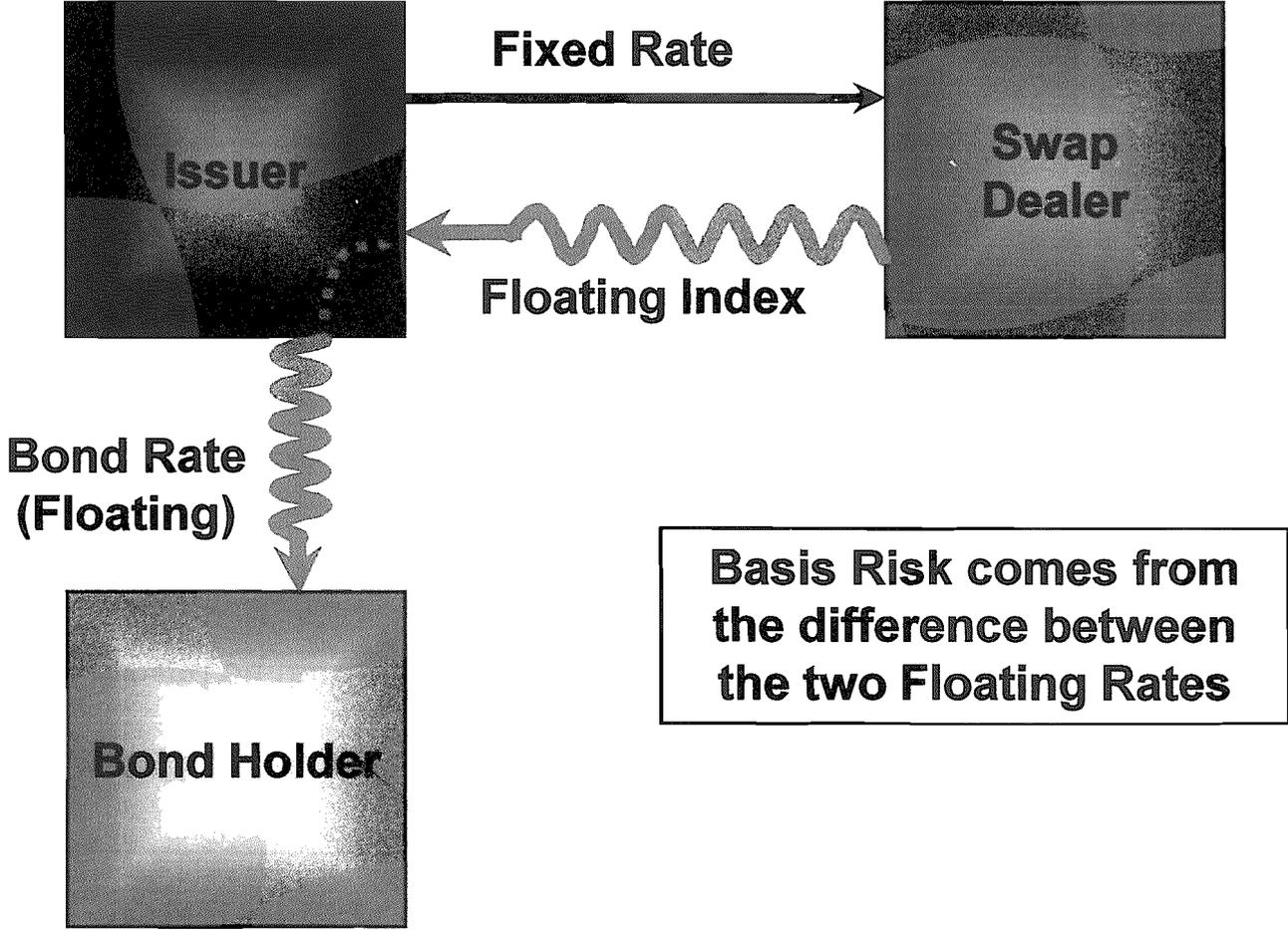
How Termination Works

- Compare original contract swap rate with current market rate for a swap ending on the same date.
- Multiply rate difference times dollar size and years remaining, present valued.
- Example: Original rate (5.50%); current rate (4.50%); difference (1.00%) times size (\$10 mm = \$100,000) times years remaining (10 years = \$1 mm), present valued (at 4.50% = \$770,000).

Risk #2: Basis Risk

- Basis Risk is the risk that the floating rate the issuer receives on its swaps doesn't offset the floating rate the issuer pays on its bonds.

Review of Swap Structure



Risk #3: Liquidity Rollover Risk

- Definition: Risk of inability to obtain or renew liquidity facility on floating rate bonds.
- Most floaters depend on third-party liquidity facilities to backstop the “put”.
- Liquidity could become expensive or difficult to obtain if:
 - General credit crunch.
 - Systemic banking problem.
 - District credit problem.
 - New Regulations (i.e. BASEL III).

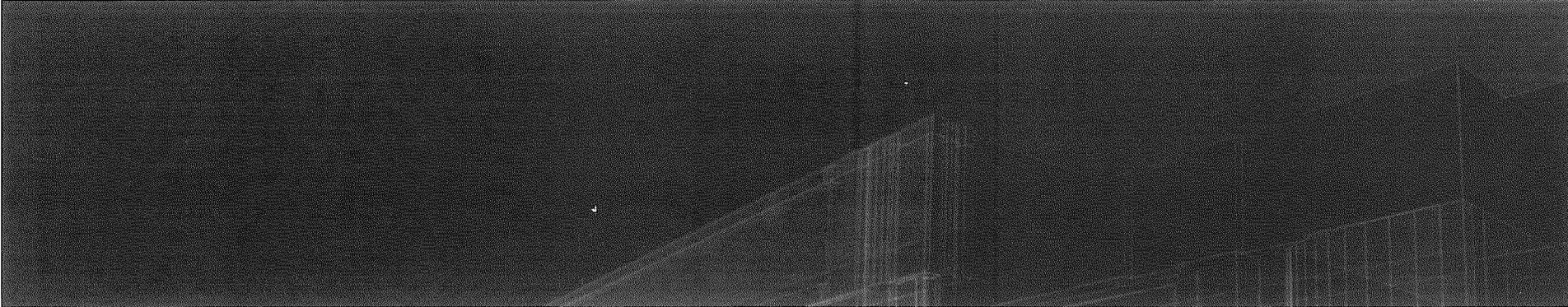
Liquidity Risk Mitigation

- Various alternative approaches exist:
 - Issue bonds as index floaters.
 - Issue bonds as “put” bonds.
 - Direct Purchase by a bank.
 - Convert bonds to fixed rate.

Risk #4: Counterparty Risk

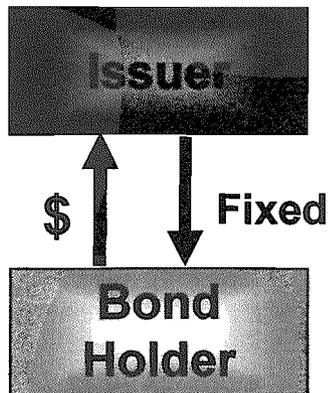
- Definition: Swap provider fails to perform or defaults.
- The #1 risk -- These are long contracts.
- Risk Measurement: Replacement cost, not notional principal amount.

Peralta's Swaps

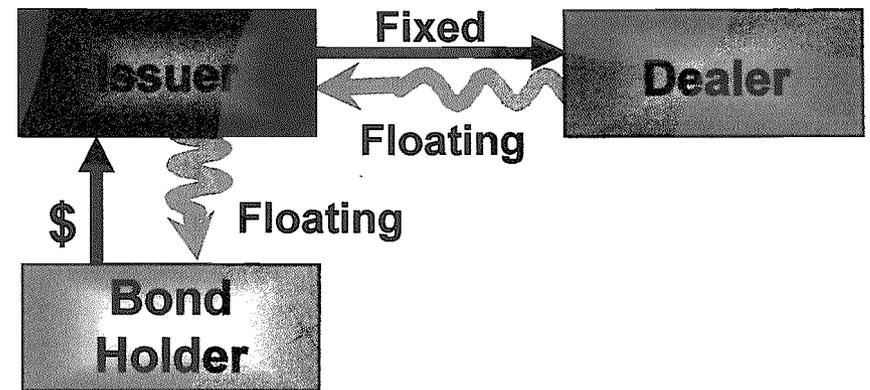


Peralta Structure

Fixed Rate Bond



Synthetic Fixed Rate



Series	Initial Issuance Date	Initial Principal	Accreted Value	Accretion Date/ Initial Variable Date	Maturity Date	Swap Term
B-1	2005	\$27,090,742	\$33,950,000	2010	2015	2010-2015
B-2	2005	\$23,633,292	\$38,450,000	2015	2020	2015-2020
B-3	2005	\$19,866,112	\$43,175,000	2020	2025	2020-2025
B-4	2005	\$20,025,603	\$57,525,000	2025	2031	2025-2031
B-5	2005	\$21,514,328	\$86,650,000	2031	2039	2031-2039
B-6	2005	\$21,604,753	\$134,475,000	2039	2049	2039-2049



Retiree Health Benefit Program Fund Investment Policy

Retiree Health Benefit Program Fund Investment Policy

Investment Policy

The investment of funds in the Retiree Health Benefit Program Fund will be made in accordance with the investment policy of the District, which is comparable to that adopted by the California Public Employees Retirement System, developed by the Investment Committee of the Peralta Community College District, and approved by a resolution of the Board of Trustees on December 13, 2005 (the "Investment Policy"). The Investment Policy was adopted to provide guidance and parameters for the investment managers engaged by the District to invest the Retiree Health Benefit Fund. The Investment Policy is subject to revision at any time, and is expected to be reviewed periodically to ensure compliance with the stated objectives of safety, liquidity and diversification.

The Investment Committee will delegate authority only to those investment advisors that meet the following criteria: demonstrable historical track record of outperformance relative to the appropriate benchmark, significant institutional asset management experience, a financially sound firm, and in good standing with the SEC and the NASD. Additionally, the Investment Committee will employ an Investment Manager with the following qualification for at least 85% of the Program Fund Investments: (i) shall be an investment firm registered under "40 Act" in good standing (ii) a firm with substantial experience in investing portfolios for pension and/or health benefits for both public and private entities, (iii) shall have at least \$10 billion of assets under management.

A third party custodian shall custody the assets for all allocations and be responsible for the ultimate reporting of asset values to the Investment Committee.

Financial Guaranty, as Bond Insurer for the District's 2005 OPEB Bonds, will be notified of any material changes in the Board's investment policy. Financial Guaranty may upon reasonable notice, ask questions and receive any materials regarding the investment policy and performance with respect to the Program Fund Investments.

Investment Objectives

The Investment Policy sets forth the following objectives, in order of priority:

- To provide for specified annual or monthly cash flows while achieving longer-term appreciation of both principal and future income for longer-term payment of Health Care Obligations; and
- To attain exposure to a wide range of investment opportunities in various markets while managing risk exposure through prudent diversification.

The investment objective is that the assets, exclusive of contributions and/or withdrawals, grow over the short term and earn, through a combination of investment income and

capital appreciation, a rate of return (time-weighted total return) equal to or in excess of a benchmark comprising 30% S&P 500, 35% Lehman Aggregate Bond Index, 20% MSCI EAFE, 10% Russell 2000 and 5% NAREIT Equity REIT Index.. Performance for the fund will be measured over a full market cycle.

Permissible Investments

Moneys on deposit in the Retiree Health Benefit Program Fund may be invested in the following investments (collectively, "Permissible Investments"), subject to certain limitations more fully described in the Investment Policy: Equities (Domestic and International), Fixed Income, and Cash.

Alternative investments and Tactical Asset Allocation overlay strategies will be reviewed and possibly utilized as deemed prudent by the Investment Committee. Alternative investments will not exceed 15% of the total assets (this excludes the notional value of an overlay strategies).

The Investment Committee will make efforts to allocate a portion of the assets to emerging managers in the future. The emerging manager allocations will be bound by the Investment Policy statement set forth herein.

Equities

The equity portfolio will be diversified by style, size and geography. The exposure of the District to each style shall be managed separately through the use of either mutual funds or individual security selection by a specialist in that style. The holdings in each style's subportfolio is required to be well diversified by sector, however sector concentration may vary from style to style, reflecting the different universe and benchmarks of each.

Mutual funds may be used to gain exposure to market segments for which individual securities selection is not practical; however, whenever possible, the portfolio is to pursue its investment goals through direct securities selection.

With the exception of mutual funds, which are diversified, no issue may, at time of purchase, represent more than 5% of the maximum allowable equity exposure.

The portfolio will not engage in investment transactions involving short sales, commodities, security loans, or unregistered or restricted stock. From time to time, the portfolio may use futures to adjust asset allocation; use of futures is restricted to 15% of market value.

Fixed Income

The fixed income portion of the portfolio is required to use the Lehman Aggregate Bond Index as its benchmark. The average weighted duration of the fixed income securities may range from 80% to 120% of the duration of the benchmark index.

Acceptable Fixed Income Securities

- i. United States Treasury Securities
- ii. Federal Agency Securities
- iii. Mortgage-Backed Securities
- iv. Commercial Mortgage Obligations
- v. Collateralized Mortgage Obligations
- vi. Corporate Obligations, including
 - a. U.S and Yankee Issues
 - b. Supranational (e.g. The World Bank)
 - c. 144a Securities
- vii. Asset Backed Securities
- viii. Money Market Securities, including:
 - a. Master Notes
 - b. Funding agreement
 - c. Commercial Paper
 - d. Banker Acceptances
 - e. Certificates of Deposit
- ix. Repurchase Agreements
- x. Money Market Funds/Sweeps

Cash

Cash investments will be made in Lehman Brothers Institutional Liquidity Funds which seek the highest available current income consistent with safety and liquidity. The Funds seek to provide preservation of capital, daily liquidity and a constant \$1.00 net asset value (NAV) while offering the highest possible yield potential.

Credit Quality and Diversification Parameters

With the exception of securities issued by of the U.S. Government and its agencies, for which there are no restrictions on concentration, no single security or issuer may represent more than 5% of the fixed income portfolio at the time of purchase.

All fixed income securities are required to be rated investment grade (Baa/BBB or higher), with the exception that up to 5% of the fixed income portfolio may be invested in securities in the Ba/BB category. For split-rated issues, the higher rating of National Recognized Statistical Rating Organization (NRSRO) will be considered the security's rating.

Asset Allocations and Targets

The asset allocation is set forth below and the portfolio shall be rebalanced semi-annually to the target weights per the ranges below. The asset allocations targets and ranges will be reviewed periodically and may be changed as deemed prudent by the Investment Committee.

<u>Asset Class</u>	<u>Strategic Target</u>	<u>Tactical Range</u>	<u>Benchmark</u>
Fixed Income	35%	30% – 40%	Lehman Aggregate Index
Large Cap Equity	30%	25% - 35%	S&P 500 Index
International Equity	20%	15% - 25%	MSCI EAFE Index
Small Cap Equity	10%	5% - 15%	Russell 2000 Index
Real Estate	5%	0% - 10%	NAREIT Equity REIT Index

Reporting

Investment managers are required to provide the District with quarterly reports that include all information necessary to effectively monitor the performance of the investment portfolio.