

**EXCERPT
MINUTES OF THE REGULAR MEETING
OF THE GOVERNING BOARD**

**PALOMAR COMMUNITY COLLEGE DISTRICT
Palomar College, San Marcos, California
Tuesday, August 8, 2006**

**APPROVE RESOLUTION ORDERING AN ELECTION AND ESTABLISHING SPECIFICATIONS OF
THE ELECTION ORDER**

RESOLUTION NO. 06-20888

**RESOLUTION OF THE GOVERNING BOARD OF THE PALOMAR
COMMUNITY COLLEGE DISTRICT ORDERING AN ELECTION, AND
ESTABLISHING SPECIFICATIONS OF THE ELECTION ORDER**

WHEREAS, the Governing Board (the "Board") has determined that certain properties and facilities within the Palomar Community College District (the "District") need to be maintained, acquired, constructed, improved, furnished and equipped to enable Palomar College and its education centers, to provide affordable, local higher education, to train and retrain local residents for higher-paying and skilled jobs, and to enhance educational opportunities for the students in the District who desire to transfer to four-year universities; and

WHEREAS, since Palomar College serves nearly 25 percent of the population of San Diego County and due to the age and condition of many of the District's deteriorated, outdated facilities, the District has been less able to provide necessary education programs and thus the Palomar Community College District must act to maintain and expand its campuses and provide a balance of job training, particularly in healthcare and public safety, and general education classes close to the homes of its students; and

WHEREAS, the Board has determined that the modernization and replacement of deteriorated classrooms, buildings, laboratories and instructional equipment and the construction of new classrooms and labs for nursing and other health care programs, police, fire and public safety programs; the provision of state-of-the-art computer technology; the installation of fire safety equipment; the improvement of electrical, lighting, ventilation and fire detection systems in existing classrooms; the enhancement of access for disabled students; and the improvement of facilities to provide students with more course options close to their homes are also among the highest priorities of the Board; and

WHEREAS, notwithstanding concerted and ongoing efforts by the District to obtain sufficient facility money from the State of California (the "State"), the State has been unable to provide the District with enough money for the District to adequately maintain and enhance Palomar College and its education centers for students; and

WHEREAS, if the District passed a local general obligation, the Board believes that Palomar College would be eligible for over \$277 million of additional State matching funds for Palomar College facility improvements; and

WHEREAS, after much consideration, discussion and public input, the Board has approved the Palomar Community College District Master Plan 2022 which sets forth not only the long range strategy plans for Palomar College, but also prioritizes its most immediate and critical facilities and equipment needs; and

WHEREAS, in the judgment of the Board, it is advisable to provide additional funding for such facility, technology, and safety needs as described in the Master Plan 2022 by means of a general obligation bond; and

WHEREAS, Proposition 46, approved by the voters of the State of California on June 3, 1986 ("Proposition 46"), amended Section 1(b) of Article XIII A of the California Constitution by adding a provision which exempts from the 1% of full cash value limitation, those *ad valorem* taxes used to pay for debt service of any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by voters voting on the proposition; and

WHEREAS, on November 7, 2000, the voters of California approved the Smaller Classes, Safer Schools and Financial Accountability Act ("Proposition 39") which, as of its effective date, reduced the voter threshold for *ad valorem* tax levies used to pay for debt service or bonded indebtedness to 55% of the votes cast on a community college district general obligation bond; and

WHEREAS, concurrent with the passage of Proposition 39, Chapter 1.5, Part 10, Division 1, Title 1 (commencing with Section 15264) of the Education Code (the "Act") became operative and established requirements associated with the implementation of Proposition 39; and

WHEREAS, the Board desires to make certain findings herein to be applicable to this election order and to establish certain performance audits, standards of financial accountability and citizen oversight which are contained in Proposition 39 and the Act and this Resolution; and

WHEREAS, the Board determines that the restrictions in Proposition 39, as interpreted by the Attorney General of the State of California, which prohibit any bond money to be used for teacher or administrator salaries and expenses, be strictly enforced by a citizens' oversight committee; and

WHEREAS, the Board desires to establish the importance of identifying funding sources for the ongoing maintenance costs of projects constructed with the proceeds of a general obligation bond; and

WHEREAS, the Board further desires to establish procedures to ensure that all projects funded by the proceeds of a general obligation bond shall be undertaken by contractors who are qualified to bid on the work and complete such projects; and

WHEREAS, the Board further determines to establish and enforce a labor compliance program for projects funded by the proceeds of a general obligation bond which includes requirements relating to the payment of prevailing wages and compliance with all applicable state and federal labor and public contract laws; and

WHEREAS, pursuant to the California Elections Code, it is appropriate for the Board to request consolidation of the election with any and all other elections to be held on November 7, 2006, and to request that the San Diego County Registrar of Voters perform certain election services for the District; and

WHEREAS, in the judgment of the Board, it is advisable to request the San Diego County Registrar of Voters to call an election pursuant to Proposition 39 on the question of whether general obligation bonds shall be issued and sold on behalf of the District for purposes set forth below;

WHEREAS, after the adoption of this Resolution, the District will limit its expenditures of public funds in connection with this measure to certain "educational efforts"; and

NOW THEREFORE, THE GOVERNING BOARD OF THE PALOMAR COMMUNITY COLLEGE DISTRICT DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

- Section 1.** That the Board, pursuant to Education Code Sections 15100 and Government Code Section 53506, hereby requests the San Diego County Registrar of Voters call an election under the provisions of Proposition 39 and the Act and submit to the electors of the District the question of whether bonds of the District in the aggregate principal amount not to exceed \$694 million (the "Bonds") shall be issued and sold to raise money for the purposes described in Exhibits "A" and "B" hereto.
- Section 2.** That the date of the election shall be November 7, 2006.
- Section 3.** That the purpose of the election shall be for the voters in the District to vote on a proposition, a copy of which is attached hereto and marked Exhibit "A" and incorporated by reference herein, containing the question of whether the District shall issue the Bonds to pay for improvements to the extent permitted by such proposition. In compliance with Proposition 39 and the Act, the ballot proposition in Exhibit "A" is subject to the following requirements and determinations:
- (a) that the proceeds of the sale of the Bonds shall only be used for the purposes set forth in the ballot measure and not for any other purpose, including teacher or administrator salaries or other operating expenses;
 - (b) that the Board, in establishing the projects set forth in Exhibit "B," evaluated the safety, class size and offerings and information technology needs of the District;
 - (c) that the Board will cause to be conducted an annual, independent performance audit to ensure that the Bond moneys are expended for the projects identified in Exhibit "B" hereto;
 - (d) that the Board will cause an annual, independent financial audit of the proceeds from the sale of Bonds to be conducted until all Bond proceeds have been expended;
 - (e) that the Board will cause the appointment of a Citizens' Oversight Committee in compliance with Education Code Section 15278 no later than 60 days after the Board enters the election results in its minutes pursuant to Education Code Section 15274. The Citizens' Oversight Committee shall initially consist of at least seven (7) members and at no time consist of less than seven (7) members, with the possible exception of brief periods to fill any unexpected vacancies. The Citizens' Oversight Committee may not include any employee or official of the District or any vendor, contractor or consultant of the District. The Citizens' Oversight Committee shall include all of the following: One (1) member who is active in a business organization representing the business community located within the District; One (1) member who is active in a senior citizens' organization; One member who is active in a bona fide taxpayer association. In furtherance of its specifically enumerated purposes, the Citizens' Oversight Committee may engage in any of the following activities relating solely and exclusively to the expenditure of the Proposition 39 bond proceeds:

- (i) Receive and review copies of the annual, independent financial and performance audits performed by independent consultant(s);
 - (ii) Inspect District facilities and grounds to ensure that Proposition 39 bond revenues are expended in compliance with applicable law;
 - (iii) Receive and review copies of all deferred maintenance proposals or plans developed by the District;
 - (iv) Review efforts of the District to maximize Proposition 39 bond revenues by implementing cost-saving programs; and
- (f) that the tax levy authorized to secure the bonds of this election shall not exceed the Proposition 39 limit per \$100,000 of taxable property in the District when assessed valuation is projected by the District to increase in accordance with Article XIII A of the California Constitution.
- (g) that prior to the issuance of bonds for the construction of new projects set forth in Exhibit "B", the Board would have received and approved a report from the Superintendent/President, stating that the District had identified sufficient financial resources to pay for the ongoing maintenance of such projects, and that such a report shall be made available to the Citizens' Oversight Committee for review;
- (h) that the District must have a Governing Board approved short-term plan to eliminate deferred maintenance using general fund revenues, and, if necessary, with a limited reliance on bond revenues; and an approved major maintenance plan to ensure that both new and renovated facilities do not become maintenance deferred once the backlog has been eliminated. The plan should be made available to the Citizens' Oversight Committee;
- (i) that in order to maximize community benefit and efficiently apply taxpayer dollars, the District should pursue all practical opportunities to expand community joint use facilities in every new or expanded school construction project. In pursuing joint use, the District's goal should be to maximize the use of District facilities to the broader community, without adversely impacting district operations or finances. Examples of appropriate joint use provisions for incorporation into construction plans include, but are not limited to, new and expanded library facilities, recreational/physical-education facilities, computer labs, meeting rooms and childcare and health care facilities. Appropriate joint-use should take into consideration that the college and centers have many facilities that operate and offer classes from 6 a.m. to 10 p.m., with the evening programs serving about the same number of students as the day programs.

The Governing Board shall direct staff to implement the following procedures:

- Prior to the obligation of funds for new facilities or facilities expansion construction that likely would be appropriate for joint use, a joint use implementation report shall be presented in writing to the Citizens' Oversight Committee and approved by the Governing Board.

- The joint use implementation report shall include the following minimum information:
 - Project description
 - List and description of joint use elements that could potentially be incorporated into the project
- List of agencies and organizations contacted regarding potential joint use elements, including description of how agencies and organizations were contacted
- For each agency or organization contacted:
 - Joint use development criteria discussed or developed for the project
 - Equity of contribution considerations discussed or developed for the project

In addition, it is the intention of the Governing Board to make official, policy level contacts with overlapping public jurisdictions, in order to make joint-use and the efficient application of taxpayers dollars a priority of all agencies serving district boundaries. Agencies contacted should include, but not be limited to all public agencies within the District's service area, as well as the County of San Diego, public school districts, and transit agencies;

- (j) that prior to the issuance of the bonds, the District shall apply and continue to enforce a prequalification of bidders procedure on all new projects set forth in Exhibit "B" so that the District can be confident that all contractors, at all times, are qualified to bid on, work on, and complete such projects;
- (k) that prior to the issuance of the bonds, the District shall initiate and enforce a labor compliance program which requires that (i) all contracts contain appropriate language concerning public works; (ii) federal and state labor laws are fully disclosed to all bidders; (iii) weekly payroll records of each contractor and subcontractor be available for District review; (iv) all contractors and subcontractors comply with applicable prevailing wage laws; (v) the District may withhold contract payments if any of the other requirements have not been satisfied. Data on outreach efforts and results to attract bidders to District projects shall be reported periodically to the Citizens' Oversight Committee. The information to the Citizens' Oversight Committee shall include statistical data, such as total number of bidders per project, but shall not include confidential information about specific bids and bidders; and
- (l) that in connection with the establishment of a Citizens' Oversight Committee, the Governing Board shall comply with Education Code Sections 15278 *et seq.*, and beyond the requirements set forth therein, the Governing Board shall appoint persons such that a majority of the members of the Citizens' Oversight Committee possess expertise in one or more of the following areas:

- (i) large scale construction operations;
- (ii) municipal/public finance matters;
- (iii) multiple years expertise with agency/entity budgeting (which may include public agency or public entity budgeting); and
- (iv) project management.

Section 4. That the authority for ordering the election is contained in Education Code Sections 15100 *et seq.* and 15264 *et seq.* and Government Code Section 53506.

Section 5. That the authority for the specifications of this election order is contained in Section 5322 of the Education Code.

Section 6. That the San Diego County Registrar of Voters and the San Diego County Board of Supervisors are hereby requested to consolidate the election ordered hereby with any and all other elections to be held on November 7, 2006 within the District.

Section 7. That this Resolution shall stand as the “order of election” to the San Diego County Registrar of Voters to call an election within the boundaries of the District on November 7, 2006.

Section 8. That the Secretary of the Board is hereby directed to deliver an original or a certified copy of this Resolution to the San Diego County Registrar of Voters no later than August 9, 2006.

Section 9. That the maturity of any Bonds issued pursuant to Section 15100 of the Education Code, and Bonds issued pursuant to Section 53506 of the Government Code shall not exceed the maturity limits set forth therein, respectively. The maximum interest rate on any Bond shall not exceed the maximum rate allowed by Education Code Sections 15140 to 15143, as modified by Government Code Section 53531.

Section 10. That the Board requests the governing body of any such other political subdivision, or any officer otherwise authorized by law, to partially or completely consolidate such election and to further provide that the canvass be made by any body or official authorized by law to canvass the returns of the election, and that the Board consents to such consolidation.

Section 11. Pursuant to Section 5303 of the Education Code and Section 10002 of the Elections Code, the Board of Supervisors of San Diego County is requested to permit the Registrar of Voters of San Diego County to render all services specified by Section 10418 of the Elections Code relating to the election, for which services the District agrees to reimburse the County, such services to include the publication of a Formal Notice of School Bond Election and the mailing of the sample ballot and tax rate statement (described in Section 9401 of the Elections Code) pursuant to the terms of Section 5363 of the Education Code and Section 12112 of the Elections Code.

ADOPTED, SIGNED AND APPROVED this 8th day of August, 2006.

GOVERNING BOARD OF THE PALOMAR
COMMUNITY COLLEGE DISTRICT

By: 
President of the Governing Board

Attest:


Secretary of the Governing Board

STATE OF CALIFORNIA)
)
SAN DIEGO COUNTY)

I, **Robert P. Deegan**, do hereby certify that the foregoing is a true and correct copy of **Resolution No. 06-20888**, which was duly adopted by the Governing Board of the Palomar Community College District at the meeting thereof held on the 8th day of **August, 2006**, and that it was so adopted by the following vote:

AYES:	5
NOES:	0
ABSENT:	0
ABSTENTIONS:	0

By: 
Secretary to the Governing Board of the
Palomar Community College District

EXHIBIT A

“To better prepare Palomar College students for university transfer and high demand jobs, shall Palomar Community College District repair/upgrade aging educational facilities, including classrooms for nursing, emergency medical, and public safety careers, science and high-tech computer labs, outdated plumbing, ventilating, roofing, energy, electrical and safety systems, acquire sites and equipment, and construct new educational facilities, by issuing \$694 million in bonds, at legal rates, with citizen oversight, mandatory audits, and no proceeds used for administrative salaries?”

Bonds - Yes

Bonds – No

**EXHIBIT B
FULL TEXT BALLOT PROPOSITION
OF THE PALOMAR COMMUNITY COLLEGE DISTRICT
BOND MEASURE ELECTION NOVEMBER 7, 2006**

“To better prepare Palomar College students for university transfer and high demand jobs, shall Palomar Community College District repair/upgrade aging educational facilities, including classrooms for nursing, emergency medical and public safety careers, science and high-tech computer labs, outdated plumbing, ventilating, roofing, energy, electrical and safety systems, acquire sites and equipment, and construct new educational facilities, by issuing \$694 million in bonds, at legal rates, with citizen oversight, mandatory audits, and no proceeds used for administrative salaries?”

Bonds - Yes

Bonds – No

PROJECTS

The Governing Board of the Palomar Community College District, to be responsive to the needs of students and the community, evaluated the District's urgent and critical facility needs, including providing sufficient classrooms and labs to offer more courses and programs to students close to home, facility maintenance, safety issues, class size and offerings, energy cost reduction and information and computer technology, in developing the scope of projects to be funded, as outlined in the Palomar Community College District Master Plan 2022, incorporated herein in its entirety. In developing the scope of projects, the faculty, staff and students have prioritized the key health and safety needs so that the most critical needs and the most urgent and basic facility needs and repairs that will make the San Marcos Campus clean and safe for learning and its education centers viable, are addressed. The Board conducted facilities evaluations and received public input and review in developing the scope of college facility projects to be funded, as listed in the Master Plan 2022. This input of faculty and community leaders concluded that if these needs were not addressed now, Palomar College will be unable to remain competitive in preparing adult learners for current and emerging growth industries and university transfer. **In implementing the Master Plan 2022, the Governing Board determines that Palomar Community College District must:**

- **Expand classrooms and labs that provide immediate job training for critical professions such as nurses, emergency medical assistants, other health training programs and public safety programs, such as firefighting and police training.**
- **Renovate existing classrooms, science labs and vocational training facilities to insure that they are safe, energy efficient and provide access to state-of-the-art computers and instructional technology.**
- **Upgrade outdated essential campus infrastructure, such as electrical systems and wiring for computer technology and internet access, plumbing, lighting, heating and ventilation systems; as well as upgrade fire safety equipment including alarms, smoke detectors, sprinklers; and aging roofs.**
- **Provide safe classroom facilities throughout the area served by Palomar College to allow adult learners to receive job training and to enable more local students to transfer to four year universities.**

The Master Plan 2022 is on file and available for review at the District Superintendent's Office and on-line at www.palomar.edu/masterplan and includes the type of projects listed below.

PALOMAR COLLEGE, San Marcos Campus

- **Repair, Upgrade, Maintain, Equip, and/or Replace Obsolete Classrooms, Nursing and Health Care Training Facilities, Science and Computer Labs, Library, Instructional and Job Training Facilities, Public Safety Training Facilities, Sites and Outdated Utilities; Meet Demands of Changing Workforce:**

Upgrade buildings to include educational equipment and laboratories, provide state-of-the-art computer technology capability for students, repair, build, upgrade and/or replace leaky roofs, decaying walls, old ceiling tiles and flooring, plumbing, sewer and drainage systems, inefficient electrical systems and wiring, deteriorated restrooms, heating, ventilation and cooling systems, foundations, telecommunications systems, classrooms, lecture halls, faculty offices, language labs, playing fields, physical education facilities, grounds, science and other instructional laboratories and healthcare workforce facilities, television lab and studio, technology center, Brubeck Educational Theatre, library and student support facilities, administrative facilities, public safety, fire fighting, and other instructional facilities, wire classrooms for computers and other technology, increase energy efficiency, acquire equipment, increase safety, reduce fire hazards with alarms, smoke detectors, fire safety doors and sprinklers, reduce operating costs in order for more classes and job training to be offered, improve academic instruction; and meet legal requirements for disabled access.

- **Expand Classroom and Facility Capacity, Construct Classrooms, Improve Science Center, Learning Resource Center/Library, Upgrade Classrooms/Labs For Nursing and Emergency Medical Services, Public Safety Training:**

Increase permanent classroom and facility capacity for academic and job training classes, including math, computer technology, science, nursing, emergency medical and other health care programs, upgrade or replace science labs, astronomy lab, planetarium, Industrial Tech Center, physical and health education, and applied arts and sciences facilities, upgrade campus technology, construct "smart classrooms" to improve technology-enhanced learning. Construct a new Learning Resource Center/Library and replace the existing portable facilities for the Child Development Center with permanent facilities. Demolish deteriorated buildings and remove aging portable classrooms.

- **Improve Safety and Disabled Access; Remove Asbestos:**

Remove all harmful lead-paint and asbestos, upgrade existing fire alarms, sprinklers, smoke detectors, and fire doors, install security systems, exterior lighting, emergency lighting, emergency communication systems, signage, door locks and fences, and improve accessibility for the disabled. Renovate campus police facility.

- **Upgrade Technology:**

Provide state-of-the-art technology facilities, upgrade Internet access and wireless and cable technology, build "smart classrooms" to improve technology-enhanced and distance learning, upgrade telecommunications systems, upgrade campus-wide technology, replace outdated computers, replace network infrastructure equipment, and install wiring upgrades.

- **Repair, Replace and Upgrade Electrical and Mechanical Systems to Reduce Energy Consumption and Utility Bills and Accommodate Computer Technology, Internet Access and Communications Systems:**

Improve and upgrade electrical and mechanical system to take advantage of state-of-the-art energy saving technologies to reduce energy bills and have more resources for student learning. In addition, replace and consolidate 50-year old Maintenance and Operations' facilities.

- **Improve Access:**

Improve campus road network and walkways, upgrade and expand parking areas, improve pedestrian safety and increase access for emergency vehicles.

PALOMAR COLLEGE, Escondido Center

- **Upgrade Technology:**

Provide state-of-the-art technology facilities, upgrade Internet access and wireless and cable technology, build “smart classrooms” to improve technology-enhanced learning, upgrade telecommunication systems, upgrade campus-wide technology, replace outdated computers, replace network infrastructure equipment, and install wiring upgrades.

- **Repair, Upgrade, Equip, and/or Replace Obsolete Classrooms, and Other Facilities, Sites and Utilities, Seismic Improvements:**

Repair, upgrade and/or replace leaky roofs, decaying walls, old ceiling tiles and flooring, plumbing, sewer, and drainage systems, inefficient electrical systems and wiring, deteriorated restrooms, heating, ventilation and cooling systems, telecommunications systems, data center, foundations, fields and grounds, library, classrooms, lecture halls, labs, other faculty, administrative and instructional facilities, retrofit instructional buildings to meet the Field Act requirements for earthquake safety, wire classrooms for computers and technology, increase safety, increase energy efficiency, acquire safety, ergonomic, instructional and lab equipment, upgrade facilities to meet current earthquake safety codes, install emergency exit signs, reduce fire hazards, add security lighting, reduce operating costs in order for more classes and job training to be offered, improve academic instruction, and meet legal requirements for disabled access.

PALOMAR COLLEGE, New Education Centers

- **Expand Classroom Capacity:**

Construct and equip classroom and administrative facilities in both northern and southern regions of the District to allow students to enroll in general education classes and job training programs closer to home and acquire land for such purpose.

Listed building, repair and rehabilitation projects and upgrades will be completed as needed. Each project is assumed to include its share of furniture, equipment, architectural, engineering, and similar planning costs, program management, staff training expenses and a customary contingency for unforeseen design and construction costs. The project list also includes the acquisition of property and the construction of new buildings, if necessary, to accommodate a growing student population. In addition, projects will also include District-wide technology upgrades to provide greater access to technology, Internet access, wireless and cable technology, fiber optics and the purchase of network infrastructure for computers and telecommunication systems. The allocation of bond proceeds will be affected by the District's receipt of State bond funds and the final costs of each project. The budget for each project is an estimate and may be affected by factors beyond the District's control. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. Based on the final costs of each project, certain of the projects described above may be delayed, modified or may not be completed. Demolition of existing facilities and reconstruction of facilities scheduled for modernization may be undertaken, if the Board determines that such an approach would be more cost-effective in creating more enhanced and operationally efficient campuses. Necessary site preparation/restoration in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, removing, replacing, or installing irrigation, utility lines, trees and landscaping, relocating fire access roads, and acquiring any necessary easements, licenses, or rights of way to the property.

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

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