

*Board of Trustees
Woodland Joint Unified School District
630 Cottonwood Street
Woodland, California 95695*

September 16, 2008

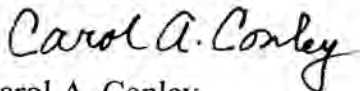
Clerk of the Court
Yolo County Superior Court
725 Court Street, Room 303
Woodland, California

Re: *Response to Yolo County Grand Jury Report by Board of Trustees
(Woodland Joint Unified School District)*

Dear Clerk:

Enclosed please find one original and five copies of the Board's Response to Yolo County Grand Jury Report for filing today. Please return the filed-endorsed copies to my messenger.

Sincerely,



Carol A. Conley
Interim Executive Assistant
Superintendent's Office
Woodland Joint Unified School District

Cc: Judge Steven M. Basha
Judge of the Yolo County Superior Court

Board of Supervisors, Yolo County

Board of Trustees
Woodland Joint Unified School District

FILED
YOLO COUNTY
SUPERIOR COURT

RESPONSE TO YOLO COUNTY GRAND JURY REPORT BY
BOARD OF TRUSTEES OF WOODLAND JOINT UNIFIED SCHOOL DISTRICT

SEP 16 2008

/KUNCLARKSON
Deputy

I. INTRODUCTION

The Board of Trustees for the Woodland Joint Unified School District ("Board") hereby submits its response to the Yolo Grand Jury Report dated June 30, 2008. The Board responds to the findings and recommendations below, and also responds to the material issues in this introduction.

A. Brown Act

The grand jury's criticism of the District's Board of Trustees with respect to Brown Act compliance bears little, if any, relevance with respect to any current or future transaction that the District has pursued or may pursue. Despite the publication date of June 30, 2008, most of the criticism related to the Brown Act relates to a 2007 purchase agreement that was terminated on March 10, 2008. Accordingly, that transaction was terminated before all, or nearly all, of the investigation undertaken by the grand jury, and three (3) months prior to the issuance of the grand jury's report.

Prior to the start of the grand jury's investigation, the District's Board held open sessions with the public in Board meetings to air the potential issues relating to the District's office relocation. The District's Board held a study session on February 16, 2006, to consider a Facilities Master Plan that detailed options for relocating the District offices. The Board took this under consideration over two and a half years prior to the November 2008 end date of its current lease.

Since January, 2008, the Board held meetings in open session and publicly discussed the matters related to the relocation of the District office. On January 24, 2008, the District had its attorney and governmental financial advisor present in open session the same information that the Board had considered in closed session. Also, during the course of these meetings, the District received public comments prior to agreeing to a lease/purchase agreement for the Blue Shield Building. Several of these public comments came from the owner of the property currently being leased to the District, or his representatives. The District also received other comments from employees stating that they supported the move either because they became sick in the current building or because they supported the decision by the Board to move them in order to minimize or eliminate the possibility they might become sick from the premises.

Further, the grand jury's findings and recommendations relating to the Brown Act cite Board meeting agendas that it contends were not in compliance with the Brown Act for failure to identify the property being discussed. Actually, the subject agendas show that the property at issue, the Blue Shield Building, was identified by name and/or parcel number in every case, and by address in addition to the other information on other occasions.

The Blue Shield Building is a well-known building in Woodland, and the Board met legal requirements and substantially complied with the Brown Act in listing it by name and/or parcel number. Notwithstanding the Board's prior compliance with the Brown Act by listing the building by name and/or parcel number, the other agendas also listed the Blue Shield Building's

address, in addition to the name and/or parcel number. Where the property has been identified with enough detail to let the public know what property is being discussed, the intent of the Brown Act has been met.

Further, the grand jury's statement regarding availability of meeting minutes is inaccurate. The minutes of the March 10, 2008, Board Meeting were approved on March 27, 2008, and were available for review on March 28, 2008.

In sum, the Board intends to continue to conduct its business in the most appropriate manner and will continue to further the goals of open meeting laws. The Board and key staff members will receive training on Brown Act compliance on September 27, 2008. Further, the Board intends to schedule Brown Act training for new Board members and periodic refresher training for other Board members.

B. Due Diligence, Decision-Making Process, and Other Issues

The grand jury criticizes the Board's decision to purchase a site for its offices, but its analysis does not include the fact that a purchaser with a 30 year payment schedule accrues equity and after 30 years owns both property and the building that sits upon it with all improvements made in the interim. On the other hand, a lessor pays rent, builds no equity, acquires no interest, and cannot take advantage of improvements to property when the lease ends.

Further, it appears that the grand jury did not take into account any time period prior to January 2007, which may have contributed to an erroneous conclusion. The District discussed whether a purchase might be more advantageous than a lease for District properties prior to the adoption of its 2006 Master Plan. Indeed, the District started the process of considering alternatives to leasing two (2) years prior to the November 2008 expiration of the Cottonwood property lease. At the time the Facilities Master Plan was adopted, the Board was anticipating costs over \$336 per square foot. The minutes for the February 16, 2006, Board Consideration of the Facilities Master Plan are publicly available documents. According to the real property negotiator, the cost of the Blue Shield Building was determined to be approximately \$185 per square foot.

Also, the District took into account estimated costs of the Certificates of Participation (COP) (actual costs cannot be determined until the COPs are actually sold on the bond market). These estimates were provided by the District's financial consultants, Government Financial Strategies, Inc.

The District took into account State deficits and the District's ability to afford the purchase of this facility. A financial analysis was conducted and considered by the Board that reflected that over a time period of 16 years, the District's revenues increased an average of 3.74% per year and based on that fact, an increase of 3% per year in debt service payments for the Blue Shield facility was affordable. As part of this analysis, the District also took into account space needs.

In addition, the grand jury assumes that the current lease for the Cottonwood space would have remained constant throughout the next 30 years when the District would need the property. Instead, a more realistic assumption, which was applied during the consideration of alternatives, would have been that the lease cost could have increased by approximately 3% per year, and the District's lease payment would be approximately \$716,000 per year in year 30.

The grand jury also did not account for several other concrete benefits of a potential purchase compared to the District's current lease. The owner of the Blue Shield Building offered property improvements which were included in the proposed lease rate of \$445,000 annually and the purchase price. The owner of Cottonwood property made no such offer to the District for improvements. In fact, the owner and/or his representatives failed to timely and adequately respond to inquiries from the District regarding the Cottonwood site. The District's representatives made over 24 attempts to contact the owner prior to a face to face meeting in July 2007. The owner did not have a copy of his own existing lease, and requested a copy of it from the District in October 2007.

After the July 2007 meeting, the District's consultant attempted numerous times to determine if the owner would be willing to sell the Cottonwood property, and even though owner's family constructed the building, the owner had no building plans available to the District for its review. Only after months of ignoring these attempts to have a discussion between the District and the owner did the owner offer to extend the lease at the Cottonwood site on November 26, 2007.

Regarding contamination, the condition of the Cottonwood site is irrelevant to the financial considerations supporting the decision to purchase a building, whether it was the Blue Shield Building or any other property.

A report from the California Regional Water Quality Control Board ("CRWQCB") to Cottonwood Investors dated September 27, 2007, related to non-compliance with its orders for environmental cleanup. Also, a report dated September 24, 2007, from CRWQCB noted employee complaints of headaches. These documents are available and contradict implications in the grand jury report that the Cottonwood premises were deemed safe.

Nevertheless, the reason for purchasing a new office was never attributed to unsafe conditions at the Cottonwood site. However, the fact that the District might have significant long-term liability for chemical clean up if it purchased the Cottonwood site was certainly one reason not to purchase it.

Further, the grand jury's statement regarding emails is disingenuous. Prior to the grand jury investigation, the District had a practice of purging emails after approximately 100 days, and prior to any grand jury request for old emails, the District employees followed this practice. This practice was explained to the grand jury and accepted during the investigation at least twice. Also, the grand jury failed to note the timing of its requests and preexisting District practice in its comments, and it also failed to note the explanations provided by the District to which it had not previously objected.

II. RESPONSE TO FINDINGS

Finding F2: Closed Session meeting agendas did not contain required information, in violation of the Brown Act.

The respondent disagrees with this finding. The District's Board agendas complied with the requirements of the Brown Act, Government Code sections 54954.5 and 54945.8, by including

sufficient information to inform the public which building(s) the Board was considering. The Board agendas included the name of the Blue Shield Building and/or the parcel number of the property, and/or its address. The point of the listing requirements for Board agendas is to let the public know what building was being discussed, and the Blue Shield Building is a well known building in Woodland. The agendas listed the property and the reason for listing the property, i.e. that it was being considered for a potential District office location.

Finding F3: Action was taken during closed session meetings of the District's Board of Trustees in violation of the Brown Act.

The respondent disagrees with this finding. To the extent that the grand jury's finding relates to its assertion that a non-compliant agenda means that a closed session meeting was not authorized, the District replies that the Board agendas complied with the requirements of the Brown Act, Government Code sections 54954.5 and 54945.8, by including sufficient information to inform the public which building(s) the Board was considering. The Board agendas included the name of the Blue Shield Building and/or the parcel number of the property, and/or its address. The point of the listing requirements for Board agendas is to let the public know what building was being discussed, and the Blue Shield Building is a well known building in Woodland. The agendas listed the property and the reason for listing the property, i.e. that it was being considered for a potential District office location.

Further, to the extent that this relates to other information, the Board had its attorney and/or consultants present material in open session on January 24, 2008, that was the same as the closed session presentations so that any alleged discussion in excess of what was allowed under the Brown Act could be heard in open session. Ultimately, the action for which the Board is most criticized by the grand jury, the purchase of the Blue Shield Building, was terminated.

During the early part of 2008, when the Board was considering its options, it held open sessions wherein approximately 12-13 people made comment regarding the topic of the Blue Shield Building. These open sessions were held prior to the Board's approval of the current lease/purchase option in May 2008.

Finding F4: The District did not report in a public session on the plan to purchase the Blue Shield Building until at least 12 months after planning and negotiations had begun. The purchase of the Blue Shield Building was discussed in public sessions only three times.

The respondent disagrees with this finding. The District's Facilities Master Plan, which was adopted in open session in February 2006, shows the Board held a study session on February 16, 2006, to consider options for relocating the District Offices. No public comments were reflected in the minutes from the February 2006 Board meeting. Further, the grand jury's report did not find evidence of misconduct, and this finding fails to state that anything the Board did was improper.

The following facts are set forth in a memo dated September 10, 2007, from the real property negotiator to District administrators. As of April, 2007, the District's architects had initially demonstrated a need for approximately 40,000 square feet of space; the space needs assessment was completed in May 2007; and the space needs assessment was presented to the Board in June, 2007. The amount of space required did not materially change from the draft of April 1, 2007, to the final version of the space needs assessment in June 2007. Prior to September 10, 2007, the real property negotiator and District administrators considered six potentially viable options, including: the Cottonwood location with expansion; Woodland Corporate Center at Main Street and 6th Street; District property at the Willow Spring School and Matmor Transportation sites; a District warehouse building; and the Blue Shield Building. The Blue Shield Building was centrally located and cost effective compared to new construction. The current owner of the Blue Shield Building did not close escrow for its own purchase of the Blue Shield Building until approximately August 15, 2007. As of September 10, 2007, the negotiations necessary to put the District in a position to enter into a Purchase Agreement still needed to occur.

Finding F5: The Board failed to comply with the open meeting requirements of the Brown Act during its consideration and discussion of questions relating to relocation of the District's central administrative offices and acquisition of the Blue Shield property. Consideration and discussion of these matters could have been the subject of open and public meetings of the Board. Even if these matters were appropriate for closed confidential meetings, the determinations made, direction given, and/or the concurrence reached among a majority of the Trustees of the Board during these closed meetings constituted action which should have been promptly announced in public session.

The respondent disagrees with this finding. Again, to the extent that the grand jury's finding relates to its assertion that a non-compliant agenda means that a closed session meeting was not authorized, the District replies that the Board agendas complied with the requirements of the Brown Act, Government Code sections 54954.5 and 54945.8, by including sufficient information to inform the public which building(s) the Board was considering. The Board agendas included the name of the Blue Shield Building and/or the parcel number of the property, and/or its address. The point of the listing requirements for Board agendas is to let the public know what building was being discussed, and the Blue Shield Building a well known building in Woodland. The agendas listed the property and the reason for listing the property, i.e. that it was being considered for a potential District office location.

In addition, the District's Facilities Master Plan, which was adopted in open session in February 2006, shows the Board held a study session on February 16, 2006, to consider options for relocating the District Offices. No public comments were reflected in the minutes from the February 2006 Board meeting. Further, the grand jury's powers related to investigation of misconduct, which they did not find, and this finding fails to state that anything the Board did was improper.

The Blue Shield Building was discussed in open session, and approximately 12-13 public comments were made. Several of the comments came from an interested party, the District's current landlord at the Cottonwood site or his counsel.

As for whether the discussions could have been held in open session, the grand jury fails to state what action(s) the Board took that were legally improper or should have been promptly announced.

Finding F6: Only negotiation of price and terms of payment are permitted to be discussed in closed Board meetings relating to a real property purchase. The Brown Act requires all other issues concerning real property transactions be taken up in open, public meetings. The Board failed to adequately inform and educate the District's constituency about the nature of Certificates of Participation financing compared to traditional bond financing and the reasons for the Boards [sic] determination to use Certificates of Participation financing to acquire new central administrative offices.

The respondent disagrees with this finding. The Board had the District's governmental financing consultant, Government Financial Strategies, Inc., make a presentation at an open session Board meeting in January 2008, which was five months prior to the issuance of the grand jury report. Also, this finding states a legal premise without stating the Board violates it. Whether the Board should have educated the public about Certificates of Participation has nothing to do with discussion in a closed Board meeting. The grand jury fails to state any legal standard requiring the Board to educate the public about Certificates of Participation.

Finding F7: Timely open and public discussion of the Board's program for new central administrative office facilities may have minimized or prevented the controversy which greeted the Board's eventual public disclosure of the Blue Shield property acquisition and financing transactions.

The respondent disagrees with this finding because it is irrelevant to any applicable legal standard. The grand jury fails to state that anything the Board did was legally improper. This finding appears to be a criticism without any citation to an alleged violation of law or legal requirement that the Board or staff failed to follow or acted to violate. A publicly elected Board has no duty to prevent controversy. In fact, open meeting laws are intended to invite discussion, not to prevent controversy.

Further, when the matter was discussed in several open session meetings, several of these public comments either came from the current owner of the property being leased to the District, or his representatives. To state that a controversy exists in a way that implies public outrage is not accurate nor is it supported by the Board meeting minutes of the comments made by the public.

Finding F8: The Board determined to purchase the Blue Shield property based in significant part upon a philosophical view that “owning is better than renting” without undertaking any analysis to verify that purchasing would actually be more advantageous to the District than leasing the Blue Shield property or purchasing or leasing other property.

The respondent disagrees with this finding. This finding is inaccurate and does not include analysis and discussion dating back to as far as 2006, as well as subsequent analysis. The District took into account estimated costs of the COP (actual costs cannot be determined until the COPs are actually sold on the bond market). These estimates were provided by the District’s financial consultants, Government Financial Strategies, Inc.

The District did take into account State deficits and the District’s ability to afford the purchase of this facility. A financial analysis was conducted and considered by the Board that reflected that over a time period of 16 years, the District’s revenues increased an average of 3.74% per year and, based on that fact, an increase of 3% per year in debt service payments for the Blue Shield facility was affordable. The District did take into account space needs. An extensive space needs analysis was already in process prior to looking at any available properties. Lastly, it was never the District’s intention to finance furniture. Equipment, in this case, refers to equipment in the building, like the heating and air conditioning systems, which would be included in the financing.

At the time the Facilities Master Plan was considered, the Board was anticipating costs over \$336 per square foot. According to the real property negotiator, the cost of the Blue Shield Building was determined to be approximately \$185 per square foot.

In addition, the grand jury assumes that the current lease for the Cottonwood space would have remained constant throughout the next 30 years when the District would need the property. Instead, a more realistic assumption, which was applied during the consideration of alternatives, would have been that the lease cost could have increased by approximately 3% per year, and the District’s lease payment would be approximately \$716,000 per year in year 30. In years after year 30, the payments on a purchase would be zero (0), and the cost of a lease would continue.

The grand jury also did not account for several other concrete benefits of a potential purchase compared to the District’s current lease. The owner of the Blue Shield building offered to make improvements to the property, which was included in the proposed lease rate of \$445,000 annually and the purchase cost. The value of improvements has the opportunity to accrue to the benefit of the District.

Finding F9: One main reason given to justify the purchase of the Blue Shield building – owning is better than leasing – indicated a flawed decision-making process, based on faulty assumptions and without verification of actual costs. It did not take into account the market, State deficits, cost of Certificates of Participation, space needs, and the cost of financing furniture and equipment for 30 years.

The respondent disagrees with this finding. This finding is inaccurate and does not include analysis and discussion dating back to at least 2006, as well as subsequent analysis. The District took into account estimated costs of the COP (actual costs cannot be determined until the COPs are actually sold on the bond market). These estimates were provided by the District's financial consultants, Government Financial Strategies, Inc.

The District did take into account State deficits and the District's ability to afford the purchase of this facility. A financial analysis was conducted and considered by the Board that reflected that over a time period of 16 years, the District's revenues increased an average of 3.74% per year and, based on that fact, an increase of 3% per year in our debt service payments for the Blue Shield facility was affordable. The District did take into account space needs. An extensive space needs analysis was already in process prior to looking at any available properties. Equipment, in this case, refers to equipment in the building, like the heating and air conditioning systems, which would be properly included in the financing.

At the time the Facilities Master Plan was adopted, the Board was anticipating costs over \$336 per square foot. According to the real property negotiator, the cost of the Blue Shield Building projects at approximately \$185 per square foot.

In addition, the grand jury assumes that the current lease for the Cottonwood space would have remained constant throughout the next 30 years when the District would need the property. Instead, a more realistic assumption, which was applied during the consideration of alternatives, would have been that the lease cost could have increased by approximately 3% per year, and the District's lease payment would be approximately \$716,000 per year in year 30. In years after year 30, the payments on a purchase would be zero (0), and the cost of a lease would continue.

The grand jury also failed to account for several other concrete benefits of a potential purchase compared to the District's current lease. The owner of the Blue Shield building offered to make improvements to the property, which was included in the proposed lease rate of \$445,000 annually and the purchase cost.

Finding F10: In closed session the Board of Trustees affirmatively rejected the notion of legal action to acquire the Blue Shield property by eminent domain proceedings. Yet the Trustees entered into a final and binding purchase agreement which stated that the purchase was made under actual threat of condemnation by the District.

The respondent disagrees with this finding because it was irrelevant prior to the issuance of the grand jury's report. The California Constitution and the Code of Civil Procedure allow a public entity to acquire property by eminent domain. This finding fails to state that the Board did anything improper, fails to relate to any alleged Brown Act violation, and is a moot point as the purchase agreement to which the grand jury refers was terminated by the District.

Currently, the Purchase Agreement which is attached as an exhibit to the existing Lease with Option to Purchase does not include the language recited in the 2007 Purchase Agreement. In fact, the Lease with Option to Purchase, which the District entered into in May 2008, does not mention eminent domain.

Finding F11: The other reason given for the purchase of the Blue Shield building – that the Cottonwood Premises are unsafe – is misleading in light of evidence provided by the monitoring and remediation of the Cottonwood Center carried out over many years and the assessment of expert Yolo County and State of California agencies of the current environmental status of the Cottonwood Center.

The respondent disagrees with this finding. This finding is misleading and irrelevant. The Board decided in 2006 to purchase a property to house the District offices. Whether or not the Cottonwood site is unsafe has nothing to do with the financial planning that went into the decision to purchase a building, whether it was the Blue Shield Building or any other property.

However, the District did have information that employees had made complaints related to the Cottonwood Premises that was dated September 24, 2007. A report from the California Regional Water Quality Control Board (“CRWQCB”) to Cottonwood Investors dated September 27, 2007, related to non-compliance with its orders. Also, a report dated September 24, 2007 from CRWQCB noted employee complaints of headaches. These documents are part of the public record.

Finding F12: In the face of increasingly critical public sentiment and the continued resistance of a strong minority of the members of the Board to the Blue Shield acquisition, the District distorted the environmental status of their existing central administrative offices by sensationalizing environmental health risks associated with ground water contamination and air quality at the location. These actions appear to be calculated public relations efforts and do not appear to be warranted by any special health risk associated with working in or visiting the District’s existing central administrative offices. The District has had no record of employee health complaints at the Cottonwood Premises since 2001.

The respondent disagrees with this finding. This finding is inaccurate and irrelevant to any applicable legal standard. Although this finding is set into the Brown Act section of the grand jury report, it has nothing to do with Brown Act compliance or any alleged violation of the Brown Act. The report from the California Regional Water Quality Control Board dated September 27, 2007, noted Cottonwood Investors’ non-compliance with its orders. Also, the District had a report dated September 24, 2007, noting employee complaints of headaches. These documents are part of the public record.

Finding F13: The District’s real property consultant was paid at rates up to \$150 per hour for work that should have been done by the District’s commission real estate broker, costing the District taxpayers unnecessary real estate consultant fees.

The respondent disagrees with this finding. To conduct the acquisition of property in the manner described by the grand jury would typically not be to the District's advantage. A broker locates property and obtains a commission from the owner's proceeds. On the other hand, the fees paid to Premier Commercial, Inc. for real estate advisory services, as referenced in this report, include work started in October 2005 for many various assignments on behalf of the District. These include an approximately \$15,000,000 land exchange for a new school site with no outside brokers involved, operations and maintenance analysis for potential needs, and ongoing advisory services for future District land needs for school sites. The fees associated with the Blue Shield purchase represent approximately 60% of the total fees paid. That said, these fees ran far higher than anticipated because of the large amount of time spent helping the District respond to the grand jury's disorganized and repetitive investigation. Also, the real property negotiator's fees ran higher because he was directed to re-negotiate the transaction with the seller of the Blue Shield Building numerous times due to the effect the grand jury investigation had on potential purchase and/or financing.

Finding F14: There is a conflict of interest created in hiring a real property consultant and a real estate broker from the same real estate services firm, a conflict which may result in direct monetary benefit to the consultant and/or the broker.

The respondent disagrees with this finding and the grand jury indicates in finding F1 that no conflict of interest was found. The real property broker was engaged by the District to ascertain all marketplace opportunities. That is the role of a broker. One of the properties was the Blue Shield Building. For this property, the broker would receive a commission from the listing broker, which would be paid by the owner of the property, but only upon successful consummation of such a transaction. This is commonplace in the industry, and has no actual bearing to the real estate advisory services provided by the real property consultant, who individually does not provide brokerage services but acts in the capacity of an owner's representative. The consultant provides ongoing real estate advisory services: analyzing options, and negotiating on behalf of and at the direction of his clients.

Finding F15: There is no District policy in place regarding purchase order addenda for sums in excess of the maximum amount of the original purchase order approved by the Board of Trustees.

The respondent disagrees with this finding in part. There is already a procedure in place for purchase order addenda based on past practice. The procedure is that purchase orders over \$15,000 require Board approval per Board Policy 3310. Individual addenda over \$15,000 also require Board approval. The Board will further review and clarify, if necessary, the Board Policies and Regulations with respect to purchase orders, purchase order addenda, and /or contracts.

Finding F16: The authorized financing of the Blue Shield property amortizes the full cost of purchasing, upgrading and equipping the Blue Shield property over 30 years notwithstanding that the future space needs assessment study only estimated that District's central office space needs for the next eight years.

The respondent disagrees with this finding. The grand jury's finding is misleading because it seems to imply, incorrectly, that the District had either: a) ignored assessing future space needs after eight years; or b) would have no space needs after eight years. Needs assessments are typically not conducted for a duration of more than approximately 8-10 years because they become inaccurate after that length of time. That said, the District clearly is going to have space needs longer than eight years, and for more than 30 years. The District will have needs for the space under consideration so long as it exists to serve the students of Woodland.

Further, this issue is moot because the financing through issuance of Certificates of Participation was authorized for the then existing Purchase Agreement which has been terminated. Due to the cloud of potential legal action resulting from the grand jury investigation, the District was forced to forego the previously authorized financing and cancel the Purchase Agreement.

Finally, the needs analysis was substantially complete at the time of approval of the Purchase Agreement and approval of the COP financing plan, and both District staff and Board members were keenly aware of the particular suitability of the Blue Shield Building for new District office space. The fact that the Board will likely need to revisit space needs for the District office, as well as other school facilities, in the future does not obviate the need for space today. If in ten years the District does not need the entirety of the Blue Shield building for its District office, the Board at that time will have several options available with regard to making the best use of the space for other school purposes.

Finding F17: The Board authorized purchase price for the Blue Shield property of \$5.67 million, plus planned tenant improvements and upgrades of \$1,600,000 and \$565,000 for furnishings and equipment. After adding financing transactional expenses and interest costs associated with the Certificates of Participation financing plan, the District's financial advisor estimates total Blue Shield property cost amounts to more than \$21 million. This amount does not include \$233,568 in other consulting and attorneys' fees already incurred through April 9, 2008, nor does it include any fees to be incurred after April 9th.

The respondent disagrees with this finding in part. The Board authorized a purchase price for the Blue Shield property of \$5.67 million, plus planned tenant improvements and upgrades of \$1,600,000 and \$565,000 for furnishings and equipment. The final COP financing plan would not have included furniture and equipment. Additionally, the total Blue Shield property cost was estimated to be less than approximately \$20 million over 30 years. After year 30, the District would own the parcel and the building, and the cost would be zero (0) for the parcel and building, whereas lease payments for a property after year 30 would continue to increase. To the

extent the District pursues a full purchase of the Blue Shield building and property in the future, the Board will be presented with a new COP financing plan which takes into account the purchase price and tenant improvement costs, as set forth in the Lease with Option to Purchase Agreement. Any new COP financing plan would have to include information regarding financing in the then existing market and the Board will need to make a determination of whether to pursue such a financing plan.

Finding F18: Material changes to the financial and credit markets since the Board's execution of the Blue Shield purchase contract have made long term mortgage borrowing, especially financing plans using mortgage payment guarantees, more difficult and more expensive. Yet the District still plans to proceed with purchase of the Blue Shield property on July 1, 2008. According to an email written by the Superintendent, the District plans "to lease the building and then purchase it when the cloud of the investigation has been lifted."

The respondent disagrees with this finding. This is not a finding of any wrong doing. It is common knowledge that the financial market has been quite volatile over the past year, particularly with respect to lending for real property. The District will lease the Blue Shield Building until such time as the Board takes action to exercise one of its options to purchase the property outright. The decision to exercise such an option will likely depend heavily on the District's ability to secure funding. As previously stated, any new financing mechanism or vehicle will need to be taken to the Board for consideration and approval at the time such a decision is imminent. It is true that the Board intended to lease the building and then to exercise its right to purchase when the investigation was concluded, as it has been, with no evidence of any wrongdoing. As always, the exercise of this option will depend upon the market at the time.

Finding F19: The District's plan for payment of furniture and equipment required in the Blue Shield property in addition to extensive tenant improvements and upgrades is based upon a 30 year payment plan notwithstanding that the useful life of such furniture and equipment is typically many years fewer.

The respondent disagrees with this finding. The District is paying for furniture and equipment from other District funding sources, e.g., Special Reserve Fund for Capital Outlay. These costs will not be paid as part of a finance plan for either the lease payments or future purchase price, if any, of the Blue Shield building.

Finding F20: The Board failed to perform and failed to require senior staff to perform adequate due diligence in its consideration of alternative office sites.

The respondent disagrees with this finding. The Board retained Premier Commercial Inc. as a consultant to assist in locating and leasing/purchasing new space for its District office. Premier Commercial conducted an extensive search for other properties in the area which could be suitable for a District office. Additionally, senior staff and Premier Commercial were directed by the Board to investigate other types of properties.

In response to this request, Premier Commercial investigated numerous other property types, including industrial, agricultural land and multi-user commercial sites. Upon review by senior District staff and Premier Commercial and after presentation to the Board, it was concluded that the cost to build out these types of properties for a District office would far exceed the cost to purchase the Blue Shield site.

Finding F21: The District withheld from the Board the actual, negotiable lease renewal offer of the Cottonwood Premises owner, leaving the Board with incomplete information upon which to make their decision to lease or purchase the Blue Shield property or to remain at the Cottonwood premises.

The respondent disagrees with this finding. During open session at a Board meeting on May 8, 2008, the attorney for the owner of the Cottonwood site presented the Board with a second offer to extend the existing 10-year lease on terms and conditions slightly different from the first offer received several months prior. There was no failure on the part of District staff to present this second offer. In fact, the owners presented it at the last possible moment at the Board meeting, only minutes prior to the Board taking action to approve the Lease with Option to Purchase Agreement.

The owner of Cottonwood made two separate offers to the District to extend its existing lease. The first lease offer was irrelevant because the Board had determined to buy a building, not lease one, and the purchase of the Cottonwood site was not recommended because of existing contamination.

Finding F22: The Superintendent demonstrated over-reliance upon the District's real estate consultant, at the expense of her own knowledge.

This finding is vague and lacks sufficient facts for response, but to the extent it is capable of being understood, the respondent disagrees with this finding. Districts routinely hire experts, specialists, and consultants to assist in carrying out critical functions of the District. To the extent that Premier Commercial is in the business of locating and negotiating the lease and/or purchase of real property, District staff, including respondent, properly relied upon its extensive knowledge and expertise in such matters. The Board asked critical questions and solicited answers from District consultants to assure financial solvency and prudent decision making.

Finding F23: Decision makers, with few noteworthy exceptions, did not appear to be informed in areas critical to their role in the decision making process in connection with relocation of District administrative offices or acquisition of the Blue Shield property.

This finding is vague and lacking in facts, and therefore a proper response is not possible. The term “decision makers” is not clear. “A few noteworthy exceptions” would force the respondent to guess as to its meaning, and fails to even mention who or what comprised the exceptions. “Areas critical to their role in the decision making process” is either redundant with other findings, to which the respondent has responded elsewhere, or is so lacking in definition that respondent cannot venture a guess as to its meaning. To the extent possible, respondent has responded to the relevant and decipherable parts of this finding elsewhere.

Finding F24: The District’s legal counsel worked to frustrate and limit the Grand Jury’s requests to the District for information concerning the subject matter of this report and interviews of District officers.

The respondent disagrees with this finding. The grand jury does not state facts supporting its finding that legal counsel worked to limit and frustrate it. As set forth in the correspondence between counsel and the grand jury members, the grand jury’s disorganized, repetitive requests for information in the form of document requests or multiple requests for testimony were frequently given on short notice, were vague, and substantially disrupted the District’s educational mission by taking the time of staff and administrators away from their primary duties. The correspondence between legal counsel and the grand jury is available for review.

For instance, on one occasion, the former Superintendent was served with a subpoena on a Thursday afternoon to testify on a Saturday morning, when she was already scheduled to attend an important community event with students. The law states that the grand jury’s powers are bounded by reasonableness. The grand jury acted unreasonably by providing less than one and a half (1-1/2) days notice to appear and testify.

Legal counsel merely requested that the grand jury, county counsel, and/or the district attorney work to help organize the grand jury’s investigation. The correspondence also shows that the grand jury was disorganized in its approach, which necessitated the requests for clarification from counsel.

Finding F25: The Board of Trustees based the cost alternatives to the purchase of the Blue Shield property upon faulty assumptions and without verification of actual or most likely costs, resulting in a seriously flawed decision making process.

The respondent disagrees with this finding. Again, this is a vague finding with no reference to what constituted the “faulty assumptions” or the “seriously flawed decision making process.” This finding is inaccurate and ignores analysis and discussion dating back to as far as 2006, as

well as subsequent analysis. The District took into account estimated costs of the COP (actual costs cannot be determined until the COPs are actually sold on the bond market). These estimates were provided by the District's financial consultants, Government Financial Strategies, Inc.

The District did take into account State deficits and the District's ability to afford the purchase of this facility. A financial analysis was conducted and considered by the Board that reflected that over a time period of 16 years, the District's revenues increased an average of 3.74% per year and, based on that fact, an increase of 3% per year in our debt service payments for the Blue Shield facility was affordable. The District did take into account space needs. An extensive space needs analysis was already in process prior to looking at any available properties.

At the time the Facilities Master Plan was adopted, the Board was anticipating costs over \$336 per square foot. According to the real property negotiator, the cost of the Blue Shield Building projects at approximately \$185 per square foot.

In addition, the grand jury assumes that the current lease for the Cottonwood space would have remained constant throughout the next 30 years when the District would need the property. Instead, a more realistic assumption, which was applied during the consideration of alternatives, would have been that the lease cost could have increased by approximately 3% per year, and the District's lease payment would be approximately \$716,000 per year in year 30. In years after year 30, the payments on a purchase would be zero (0), and the cost of a lease would continue.

The grand jury also failed to account for several other concrete benefits of a potential purchase compared to the District's current lease. The owner of the Blue Shield building offered to make improvements to the property, which was included in the proposed lease rate of \$445,000 annually and the purchase cost. The value of improvements has the opportunity to accrue to the benefit of the District.

Finding F26: The determination that owning the Blue Shield property was better than leasing the Cottonwood Premises, to the extent it is based upon comparable annual cost, was misinformed because the actual costs available to the District was approximately 60% of the first year COP expense.

The respondent disagrees with this finding. This finding appears to be based on a gravely erroneous assumption that a lease payment for the Cottonwood property would have remained constant. The District did take into account State deficits and the District's ability to afford the purchase of this facility. A financial analysis was conducted and considered with the Board that reflected

that over a time period of 16 years, the District's revenues increased an average of 3.74% per year and, based on that fact, an increase of 3% per year in our debt service payments for the Blue Shield facility was affordable.

At the time the Facilities Master Plan was adopted in 2006, the Board was anticipating costs over \$336 per square foot. According to the real property negotiator, the cost of the Blue Shield Building projects at approximately \$185 per square foot.

In addition, the grand jury assumes that the current lease for the Cottonwood space would have remained constant throughout the next 30 years when the District would need the property. Instead, a more realistic assumption, which was applied during the consideration of alternatives, would have been that the lease cost could have increased by approximately 3% per year, and the District's lease payment would be approximately \$716,000 per year. In years after year 30, the payments on a purchase would be zero (0), and the cost of a lease would continue.

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Finding F27: If the uninformed assumption that the annual rental would be approximately \$450,000 a year – or even \$414,000 a year – was correct, the annual costs of owning the Blue Shield property would very materially exceed the Cottonwood Premises lease payments because the COP payments are intended to escalate by 3% per year on a compounded basis.

The respondent disagrees with this finding. This finding ignores the likelihood that the cost of a lease payment would have gone up over the course of time, and a renewal of the lease at the Cottonwood site was not an option that the Board decided to pursue. In addition, there was no offer on a Cottonwood lease that exceeded 10 years, so this finding is speculative. After 30 years on a purchase agreement, the District would own the parcel and the building, and the cost would be zero (0) for the parcel and building, whereas lease payments after year 30 would continue to increase. The District anticipates that it will need to serve students longer than 30

years. The cost of a lease could exceed \$716,000 per year starting in year 30, with anticipated cost increases after that, so the difference between a lease and purchase for every year thereafter could be greater than \$716,000 per year. Further, this issue is moot. There is currently no COP financing plan, or any other funding mechanism, for the outright purchase of the Blue Shield building. If the Board determines that it will exercise its option to purchase the Blue Shield building, it will revisit all available funding mechanisms at that time.

Finding F28: The District undertook detailed negotiations and entered a letter of mutual intent fixing upon purchase of the Blue Shield property before the District's own study of future administrative office space needs was presented to the Board of Trustees. The price and terms of payment were agreed upon before any valuation study of the Blue Shield property was commenced.

The respondent disagrees with this finding. The following facts are set forth in a memo dated September 10, 2007, from the real property negotiator to District administrators. As of April, 2007, the District's architects had initially demonstrated a need for approximately 40,000 square feet of space; the space needs assessment was completed in May 2007; and the space needs assessment was presented to the Board in June, 2007. From April 2007 to June 2007 the estimate for space did not materially change. Prior to September 10, 2007, the real property negotiator and District administrators considered six potentially viable options, including: the Cottonwood location with expansion; Woodland Corporate Center at Main Street and 6th Street; District property at the Willow Spring School and Matmor Transportation sites; District Warehouse Building; and the Blue Shield Building. The Blue Shield Building was centrally located and cost effective compared to new construction. The current owner of the Blue Shield Building did not close escrow for its own purchase of the Blue Shield Building until approximately August 15, 2007. As of September 10, 2007, the negotiations necessary to put the District in a position to enter into a Purchase Agreement still needed to occur.

Even after the negotiations took place, and the Purchase Agreement was ultimately approved by the Board in December, 2007, the District still had until March 14, 2008, to terminate the Purchase Agreement, which it did. In addition, one of the conditions precedent to the District's obligation to proceed with Purchase Agreement was that the District would have an appraisal prepared. In the context of this type of transaction, conditions precedent to a District duty to perform on a Purchase Agreement, or other contingencies, are not unusual or improper.

Finding F29: The Board failed to conduct timely due diligence in that they considered alternative central office locations after they had already decided upon and engaged in extensive negotiation for the purchase of the Blue Shield property.

The respondent disagrees with this finding. District staff and Premier Commercial conducted extensive research regarding alternative locations for the District office before and after the Board took action on December 13, 2007, to approve the purchase agreement, which was terminated in March 2008.

As for the post-approval investigation, the Board was advised that it would have until March 14, 2008, to withdraw from the Purchase Agreement without penalty and for any reason. To the extent concern was raised regarding the Board's decision to purchase the Blue Shield building, the Board took every action to ensure that its decision was sound. Accordingly, it directed District staff and Premier Commercial to do further investigation as to any other potentially suitable sites for a District office. Therefore, although some of the alternative site investigation was done after approval of the Purchase Agreement, the District would have been permitted, under the terms of the Agreement, to terminate the same and pursue other options for a District office site.

RESPONSE TO RECOMMENDATIONS

Recommendation 08-01: The District should engage a policy and practice of openness and cooperation toward the public with regard to major financial decisions. The Board of Trustees should engage in deliberation and decision making in public sessions in full compliance with the requirements of the Brown Act.

Response to Recommendation 08-01:

This recommendation is vague, but this recommendation has been implemented to the extent it can be implemented. The Board is already charged with Brown Act compliance, and will continue to comply. In order to continue to best comply with the Brown Act, the Board has scheduled Brown Act training for itself and key District staff on September 27, 2008, and will further hold Brown Act training for new Board members within six (6) months of the new Board member's election to the Board and refresher training for current Board members every two years.

Recommendation 08-02: The Board should strengthen public confidence in its competence and authority by conducting its business and discussions in public session and utilize closed confidential session meetings only where expressly authorized by the Brown Act.

Response to Recommendation 08-02:

While this recommendation is vague, this recommendation has been implemented to the extent it can be implemented. The Board is already charged with Brown Act compliance, and the Board continues to cultivate public confidence by conducting its business in an appropriate and legal manner. In order to continue to best comply with the Brown Act, the Board has scheduled Brown Act training for itself and key District staff on September 27, 2008, and will further hold Brown Act training for new Board members within six (6) months of the new Board member's election to the Board and refresher training for current Board members every two years.

Recommendation 08-03: The Board and District administrators should share the public spirit of service to the community by organizing and conducting business in a way that increases public interest in District affairs, encourages public attendance and informs the public in open, shared deliberations and discussion.

Response to Recommendation 08-03:

This recommendation is vague, but that this recommendation has been implemented to the extent it can be implemented. The District already shares a public spirit of service to the community, organizes and conducts its business in a way that increases public interest in District affairs, encourages public attendance, and informs the public in open, shared deliberations and discussion. In order to continue to best comply with the Brown Act, the Board has scheduled Brown Act training for itself and key District staff on September 27, 2008, and will further hold Brown Act training for new Board members within six (6) months of the new Board member's election to the Board and refresher training for current Board members every two years.

Recommendation 08-04: The Board should take seriously its obligations to educate itself and its senior administrative staff about the open meeting requirements of the Brown Act and institute an annual continuing mandatory educational program about the Brown Act for Board members and senior staff.

Response to Recommendation 08-04:

The Board agrees that complying with the Brown Act is, and has been, required of it and will continue to act to comply with the Brown Act. In order to continue to best comply with the Brown Act, the Board has scheduled Brown Act training for itself and key District staff on September 27, 2008, and will further hold Brown Act training for new Board members within six (6) months of the new Board member's election to the Board and refresher training for current Board members every two years.

Recommendation 08-05: Pursuant to Govt. C 54957.2, the Board should designate an officer or employee of the District to attend each closed session meeting of the Board to keep a record of topics discussed, directions given, decisions made, and actions taken by the Board in closed session.

Response to Recommendation 08-05:

The Board agrees that complying with the Brown Act is, and has been, required of it and will continue to act to comply with the Brown Act. The Board will explore the ramifications of employing this suggested recommendation and will make a decision on this issue in the next 90 days.

Recommendation 08-07: The District should approach the expenditure of its monetary resources with a commitment to frugality, careful research, and open communication and disclosure of the Board's decision making process.

Response to Recommendation 08-07:

This recommendation is vague, but this recommendation has been implemented to the extent it can be implemented. The District is solvent and conservative in its approach to budgetary matters; losing no staff to budget cuts, meeting all of its financial obligations, and experiencing labor peace.

Recommendation 08-08: The Board should minimize use of long term consultants and, when possible, utilize qualified District personnel to their full advantage, both to reduce expenses and to increase accountability of individuals acting on behalf of the District.

Response to Recommendation 08-08:

This recommendation is vague, but the District agrees that where it has qualified and available personnel to conduct research and perform duties, then it will utilize them in the most appropriate manner to attempt to reduce expenses. For all current and relevant Board decisions, this Board and District administration hired competent consultants to conduct such research and analysis for them, and openly shared issues and conducted their business in a manner that is consistent with the public's trust. The consultants employed advised in areas where the current staff were not experts.

Recommendation 08-09: The District should establish a policy requiring that all District consultants act on behalf of the District only pursuant to a written contract which details the services to be provided to the District, the reporting relationship between the consultant and a specific District officer or the Board, identify the District office or officers authorized to direct the work of the consultant and establish the maximum amount of compensation payable to the consultant without further specific Board authorization.

Response to Recommendation 08-09:

This recommendation is vague, but has been implemented to the extent required by law and to the extent possible. The District did follow a process such as that identified above where required as shown in the District Business Services Procedures Manual.

Recommendation 08-10: The Board of Trustees should establish a policy regarding Board authorization and payment of addenda to purchase orders which aggregate to more than \$15,000 maximum expenditure authority delegated by the Board to the Superintendent.

Response to Recommendation 08-10:

There is already a procedure in place for purchase order addenda based on past practice. The procedure is that purchase orders over \$15,000 require Board approval per Board Policy 3310. Individual addenda over \$15,000 also require Board approval. The Board will further review and clarify, if necessary, the Board Policies and Regulations with respect to purchase orders, purchase order addenda, and /or contracts.

Recommendation 08-11: The Board of Trustees and School District should avoid even the slightest conflict of interest between or among vendors.

Response to Recommendation 08-11:

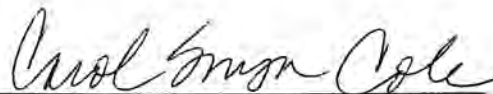
There was no finding that the Board of Trustees or the District had a conflict of interest. It would appear that if the District continues to follow the normal rules relating to conflicts of interest then it will legally satisfy this recommendation, and the Board intends to do so.

Recommendation 08-12: The Board and District administrators should exercise due diligence techniques and research, documenting its analyses underpinning important financial decisions and actions such as purchase or lease of capital assets. They should carefully consider alternatives, financial arrangements, and the economy when considering purchase of real property. They should also ensure understanding of important financial and contractual arrangements presented by District administrators and consultants.

Response to Recommendation 08-12:

This recommendation is vague, but the District believes it already complied with this recommendation and took over two years to consider the purchase of property for the District offices dating back to at least the discussion and consideration of the Facilities Master Plan in February 2006, if not earlier. As a general principle, the Board intends to continue to exercise due diligence in such matters.

Dated: September 15, 2008



Carol Souza Cole
President, Board of Trustees
Woodland Joint Unified School District