ALPINE UNION SCHOOL

Proposition H

(This proposition will appear on the ballot in the following form.)

PROP H

“To protect student safety and quality education with funding that cannot be taken by the State, shall the Alpine Union Elementary School District upgrade, construct, equip, acquire classrooms, sites, school facilities to meet current earthquake and safety codes, update instructional technology, support core academic programs/teachers by eliminating debt, make classrooms accessible for students with disabilities by issuing $11,995,000 in bonds at legal rates, with independent oversight, no money for administrators, and all funds spent on Alpine area schools?”

This proposition requires approval by 55% of the voters voting on the proposition.

Full text of this proposition follows the arguments and rebuttals.

EDUCATION CODE SECTION 15272

If this Bond measure is approved, the Alpine Union School District Governing Board will appoint a citizen oversight committee and conduct annual independent audits to assure that bond funds are spent only on school and classroom improvements and for no other purposes.
ALPINE UNION SCHOOL DISTRICT
BOND ELECTION

COUNTY COUNSEL IMPARTIAL ANALYSIS

This proposition, if approved by 55% of the votes cast on the proposition, will authorize the Alpine Union School District ("District") to issue and sell $11,995,000 in general obligation bonds. The sale of these bonds by the District is for the purpose of raising money for the District, and represents a debt of the District. In exchange for the money received from the holders, the District promises to pay the holder of the bonds an amount of interest for a certain period of time, and to repay the bonds on the expiration date.

Voter approval of this measure also will authorize an annual tax to be levied upon the taxable property within the District. The purpose of this tax is to generate revenue to pay the principal and interest on the bonds in an amount sufficient to pay the interest as it becomes due and to provide a fund for payment of the principal on or before maturity.

Proceeds from the sale of bonds authorized by this proposition may be used by the District for the construction, reconstruction, rehabilitation or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities.

The interest rate on any bond, which is established at the time of bond issuance, cannot exceed 12% per annum. The final maturity date of any bond could be no later than 25 years or 40 years after the date the bonds are issued as determined by the District.

The tax authorized by this proposition is consistent with the requirements of the California Constitution. The California Constitution permits property taxes, above the standard one percent (1%) limitation, to be levied upon real property to pay the interest and redemption charges on any bonded indebtedness for the acquisition or improvement of real property, including the furnishing and equipping of school facilities, when approved by 55% of the voters if:

1. the proceeds from the sale of the bonds are used only for the purposes specified,
2. the District, by evaluating safety, class size reduction, and information technology, has approved a list of specific projects to be funded,
3. the District will conduct an annual, independent performance audit, and
4. the District will conduct an annual, independent financial audit.

If a bond measure is approved, state law requires the District to establish an independent citizens’ oversight committee. The District has made this ballot proposition subject to these requirements.

Approval of this proposition does not guarantees that the proposed projects in the District that are the subject of these bonds will be funded beyond the local revenues generated by this proposition.

A “YES” vote is a vote in favor of authorizing the District to issue and sell $11,995,000 in general obligation bonds.

A “NO” vote is a vote against authorizing the District to issue and sell $11,995,000 in general obligation bonds.
Tax Rate Statement  
Alpine Union School District  
Bond Proposition "H"

To: The voters voting in the June 5, 2012 election on the question of the issuance of $11,995,000 General Obligation Bonds of the Alpine Union School District.

You are hereby notified in accordance with Section 9401 of the Elections Code of the State of California of the following:

1. The best estimate from official sources of the tax rate which would be required to be levied to fund principal and interest payments during the first fiscal year after the first sale of bonds (Fiscal Year 2012-2013), based on assessed valuations available at the time of the election and taking into account estimated future growth, is the following:

$.01400 per $100 of assessed valuation, which equates to $14.00 per $100,000.

2. The best estimate from official sources of the tax rate which would be required to be levied to fund principal and interest payments during the first fiscal year after the last sale of bonds and an estimate of the year in which that rate will apply, based on assessed valuations available at the time of the election and taking into account estimated future growth, is as follows:

$.01400 per $100 of assessed valuation, which equates to $14.00 per $100,000.

First fiscal year after last sale of bonds: 2022-2023

3. The best estimate from official sources of the highest tax rate which would be required to be levied to fund principal and interest payments on the bonds and an estimate of the year in which that rate will apply, based on assessed valuations available at the time of the election and taking into account estimated future growth, is as follows:

$.01400 per $100 of assessed valuation, which equates to $14.00 per $100,000.

Year of highest tax rate: Tax is projected to be the same every year.

The attention of all voters is directed to the fact that the foregoing information is based upon projections and estimates only. The actual tax rates and the years in which they will apply may vary from those presently estimated, due to variations from these estimates in the timing of bond sales, the amount of bonds sold and market interest rates at the time of each sale, and actual assessed valuations over the term of repayment of the bonds. The date of sale and the amount of bonds sold at any given time will be determined by the District based on its need for construction funds and other factors. The actual interest rates at which the bonds will be sold will depend on the bond market at the time of sale. Actual future assessed valuations will depend upon the amount and value of taxable property within the District as determined by the County Assessor in the annual assessment and the equalization process. Accordingly, the actual tax rates and the years in which such rates are applicable may vary from those presently estimated as above stated.

Submittal of the foregoing statement has been approved by the Alpine Union School District.
ARGUMENT IN FAVOR OF PROPOSITION H

Vote YES on H to keep our local Alpine schools among the best in East County.

Every penny from Prop H will stay in Alpine to benefit Alpine students.

All funds from the Prop H are locally controlled and cannot be taken away by the State or other school districts.

An independent citizens’ oversight committee and mandatory annual audits will ensure that funds are spent as promised.

No Prop H funds can be used to increase salaries, benefits or pensions for administrators, teachers or any other school employee.

Alpine Union School District is 100% locally controlled in Alpine and operates Alpine Elementary School, Boulder Oaks Elementary School, Creekside Early Learning Center, Joan MacQueen Middle School, Mountain View Learning Academy, Alpine Community Day School and Shadow Hills Elementary School.

We simply cannot rely on Sacramento to provide the support Alpine schools and students need and deserve.

Prop H will:

• Protect student safety in the event of a fire, earthquake or other emergencies
• Ensure all schools are accessible for students with disabilities
• Attract and retain qualified teachers
• Protect quality core academic instruction in math, science, reading and writing
• Refinance school facility loans to take advantage of historically low interest rates and get a better deal for taxpayers
• Improve energy and operational efficiency of schools
• Update classroom computers and instructional technology

Without Prop H Alpine schools will suffer more than $500,000 in ongoing annual cuts in addition to anticipated state funding reductions. These cuts would have a devastating impact on Alpine students, teachers and the quality of education in our community.

The typical homeowner will pay less than $4 per month and the cost is entirely tax deductible.

Good schools make our neighborhoods more desirable and protect the value of our homes.

Please vote YES on H

DOUGLAS G. BENSON SR.
Concerned Resident for Alpine
43 years in Alpine

SHARON HAVEN
Executive Director Alpine Education Foundation

PATRICIA A. CANNON
President/CEO Alpine Mountain Empire Chamber of Commerce

DEBORAH LYNN CAGNEY
PTA President Alpine Elementary School

MATTHEW D. KRAEMER
Parent/Business Owner
REBUTTAL TO THE ARGUMENT IN FAVOR OF PROPOSITION H

Prop H proponents minimize the impact of this tax increase on you, the taxpayer, and grossly exaggerate its potential benefits. They fail to acknowledge how much you already pay, and they fail to mention the likelihood they will be coming back to you for MORE money.

Prop H uses taxpayers as the piggybank to pay for maintenance the District doesn't want to be responsible for. And they want you to pay for it with interest over the next 30 years. Long-term bonds are not the way to finance regular, ongoing maintenance of schools.

When your kids are grown up, they could be paying for the carpet that was installed when they were in school!

HALF of the tax increase will pay for projects that have already been built. Do you think it is right to have your taxes increased to pay for these projects after they're completed?

School district officials must learn to live within their means, just like the rest of us.

The Association is supporting other school bonds for districts in the region that were capable of demonstrating responsible planning and use of bond proceeds. Alpine Union School District failed to meet the Taxpayers Association endorsement criteria.

There are several school districts within San Diego County that have failed to keep their promises to voters. Don't let Alpine become the next victim.

VOTE NO ON PROPOSITION H.

Visit www.sdcta.org for a complete list of ballot recommendations by the San Diego County Taxpayers Association.

SEAN KARAFIN  CHUCK TAYLOR
Economic Policy Analyst,  Former Alpine School District
San Diego County, Taxpayers Assoc.  Board Member

RICHARD RIDER  RUSSELL BICKLEY
Taxpayer Activist  Retired Teacher

RONALD NEHRING
District resident and former High School Board Member
ARGUMENT AGAINST PROPOSITION H

No on Prop H, a potential $41 million property tax increase, over the life of the bond.

The District's claims regarding the use of the funds should be carefully scrutinized.

By law, the money from the tax increase cannot be spent on teachers or core academic programs.

Nearly half of the bond funds will go to repay a solar project that has already been completed. Prop H will result in additional debt to pay for these already completed projects.

School district officials want to use the taxpayer as a credit card to pay for regular maintenance work with decades-long financing when you already pay your fair share.

If this tax increase is approved, your children will continue to pay for debt on routine maintenance work that should be paid for out of the general fund, not with new taxes! If this measure passes, it's likely that the district will soon be asking for yet another tax increase, because this is an unsustainable way to maintain district facilities.

School district officials must learn to live within their means.

The San Diego County Taxpayers Association has carefully analyzed this proposal and recommends OPPOSITION. The District has failed to demonstrate appropriate planning for the proposed bond program, and the use of funds is fiscally irresponsible.

VOTE NO ON PROPOSITION H.

Visit www.sdcta.org to review the detailed analysis of Prop H by the San Diego County Taxpayers Association, as well as their recommendations on other local and state ballot measures.

RICHARD RIDER  
Chairman, San Diego Tax Fighters

LANI LUTAR  
President/CEO, San Diego County Taxpayers Association

RUSSELL BUCKLEY  
East County Taxhawks

BUONO JOHN GHIANNI  
Retired business owner
REBUTTAL TO THE ARGUMENT AGAINST PROPOSITION H

Here are the facts on Prop H:

- Alpine Union School District has utilized Federal incentives for school energy projects that reduce operating costs and increase efficiency.

- Prop. H allows Alpine schools to refinance school facility loans to take advantage of historically low interest rates and get a better deal for taxpayers.

- The savings will be used to prevent more than $500,000 in ongoing annual cuts that would have a devastating impact on Alpine students, teachers and the quality of education in our schools.

- The savings and efficiencies achieved through Prop. H will attract and retain qualified teachers and protect quality core academic instruction in math, science, reading and writing.

- Prop. H will keep Alpine schools safe in a fire or earthquake and accessible for students with disabilities.

- Every penny from Prop H is 100% locally controlled and will stay in Alpine to benefit Alpine students.

- No funds can be taken away by the State or other school districts (including Grossmont Union High School District).

- An independent citizens’ oversight committee and mandatory annual audits will ensure funds are spent as promised.

- No funds can be used to increase salaries, benefits or pensions for administrators, teachers or any other school employee.

- The typical homeowner will pay less than $4 per month and the cost is entirely tax deductible.

- Good schools protect the value of our homes.

Alpine’s most respected leaders urge you to vote Yes on H to keep our local Alpine schools among the best in East County.

THOMAS (JERRY) PRICE
Past President Knights of Columbus

GINA C. HENKE
Alpine School Board President

COLIN L. CAMPBELL II
Alpine Education Foundation President

ELIZABETH H. PFOHL
Teacher of the Year

MARK A. GRANT
Parent/TV Personality
To protect student safety and quality education with funding that cannot be taken by the State, shall Alpine Union Elementary School District upgrade, construct, equip, acquire classrooms, school facilities to meet current earthquake, fire and safety codes, update instructional technology, support core academic programs/teachers by eliminating debt, make classrooms accessible for students with disabilities by issuing $11,995,000 in bonds at legal rates, with independent oversight, no money for administrators, and all funds spent on Alpine area schools?"

"Bonds — — Yes" "Bonds — — No"

The following is the full proposition presented to the voters by the Alpine Union Elementary School District.

"To protect student safety and quality education with funding that cannot be taken by the State, shall the Alpine Union Elementary School District upgrade, construct, equip, acquire classrooms, sites, school facilities to meet current earthquake and safety codes, update instructional technology, support core academic programs/teachers by eliminating debt, make classrooms accessible for students with disabilities by issuing $11,995,000 in bonds at legal rates, with independent oversight, no money for administrators, and all funds spent on Alpine area schools?"

PROJECT LIST

The Board of Trustees of the Alpine Union Elementary School District evaluated the District's urgent and critical financial and facility needs, including safety issues, enrollment trends, the desire to improve neighborhood schools, class size, computer and information technology, and its ability to attract and retain qualified teachers, in developing the scope of projects to be funded. The District conducted a facilities evaluation and received input in developing this Project List. The Board has prioritized the key health and safety needs so that the most critical facility needs are addressed. The Board concluded that if these needs are not addressed now, the problems will only become more pressing. Therefore, in approving this Project List, the Board of Trustees determines that:

(i) every penny of this measure must benefit local Alpine area schools, be controlled locally, and cannot be taken away by the State; and

(ii) this measure must reduce District construction debt and make our schools run more efficiently, creating more than $500,000 in annual savings that must be used to retain our best teachers and support our proven core academic classes and instructional programs; and

(iii) all of its students must be safe and secure from earthquake and fire risks, as well as from other emergencies; and

(iv) in repairing aging schools, priority must be given to basic repairs, as well as to ensuring that all schools are accessible for students with disabilities; and

(v) the District must reduce operating costs through energy efficiency and upgrades and invest the savings to improve academic class offerings in math, science, reading and writing.
BOND PROPOSITION (CONTINUED)

The Project List includes the following types of projects:

Classroom Renovation Projects
To Provide Safe Accessible Facilities for All Students

Goal and Purpose: To upgrade needed core academic classroom and facilities which are earthquake safe and handicapped accessible:

- Add electrical service capacity to relieve overloaded electrical systems so that it can handle modern instructional technology.
- Replace older windows, ceilings, heating, ventilation, air conditioning and lighting systems with building code compliant, energy efficient systems which will save money on operating costs.
- Upgrade and equip classrooms, science labs, multi-purpose rooms, and educational support spaces to meet current communication, fire and earthquake safety codes.
- Upgrade classrooms, and walkways so that they comply with current standards and are accessible for students and teachers.
- Keep classroom and school buildings safe, clean and well-maintained.
- Upgrade and expand technology, wireless systems, telecommunications, Internet access and network connections.

Student Safety, Fire and Earthquake Safety and Energy Efficiency Projects

Goal and Purpose: Since good, safe and up-to-date schools help protect and improve local property values and reduce maintenance and operating costs returning more money to the classroom, schools and school sites will benefit from a variety of health and safety projects, such as:

- Bring all schools up to current earthquake standards.
- Make schools safe by removing asbestos, lead paint, mold and hazardous materials.
- Fire alarm systems upgraded to automatic systems, repair fire safety equipment, add sprinklers and fire safety doors to make students safe in the event of an emergency.
- Upgrade to schools to meet handicap accessibility requirements.
- Replace old and inefficient windows, lighting, irrigation, heating and ventilation systems which waste money and use the savings to prevent cuts to teacher and instructional programs.
- Install energy efficient systems to save money and return the savings to the classroom.
- Upgrade emergency communication systems to improve student safety.
- Strengthen and repair schools and classrooms vulnerable to serious damage in a major earthquake, as required by State law.
BOND PROPOSITION (CONTINUED)

Projects To Reduce Operating Costs

Goal and Purpose: To reduce operating costs and redirect resources to classroom instruction and retaining qualified teachers.

- Augment energy management systems by adding automation and monitoring components to maximize efficiency of existing system facilities.

- Upgrade or replace outdated main electrical service to improve efficiency and lower operating costs.

- Incorporate solar photovoltaic systems and other energy efficiency upgrades to reduce related energy expenditures.

- Replace or improve inefficient single-pane windows.

- Replace or upgrade mechanical systems.

- Refinance loans by retiring construction debt to redirect instructional funds back to the classroom.

- Improve insulation, weather proofing and roofs to reduce costs.

- Implement water conservation projects.

* * *

The listed projects 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, and escalation for unforeseen design and construction costs. In addition to the listed projects stated above, the Project List also includes the payment of the costs of preparation of all facility planning, facility assessment reviews, environmental studies, construction documentation, inspection and permit fees, and temporary housing of dislocated District activities caused by bond projects. In addition to the projects listed above, the repair and renovation of each of the existing school facilities may include, but not be limited to, some or all of the following: renovation of student and staff restrooms, including installing waterless urinals and low flow toilets; repair and replacement of heating, air conditioning and ventilation systems; upgrade of facilities for energy efficiencies and to reduce fire risks; repair and replacement of worn-out and leaky roofs, windows, walls, doors and drinking fountains; installation wiring and electrical systems to safely accommodate computers, technology and other electrical devices and needs; repair and replacement of fire alarms, emergency communications and security systems; resurfacing or replacing of hard courts, turf and irrigation systems and campus landscaping; build/renovate gymnasiuims, maintenance facility; technology hub; playfields; upgrade or replace inadequate libraries, multipurpose rooms and kitchens; upgrade locker rooms, playground equipment; install lunch shelters, artificial turf, expand parking; install interior and exterior painting and floor covering; replacement of portable classrooms; installation of covered walkways or shelters; addition of administrative support spaces; upgrade school site kitchens; demolition; and construction of various forms of storage and support spaces; upgrade classrooms; repair, upgrade and install interior and exterior lighting systems; upgrade water and sewer lines, storm drains and other plumbing systems, upgrade water wells; replace outdated security fences and security systems. The upgrading of technology infrastructure includes, but is not limited to, computers, LCD projectors, portable interface devices, servers, switches, routers, modules, sound projection systems, laser printers, digital white boards, document projectors, upgrade voice-over-IP, call manager and network security/firewall, and other miscellaneous equipment and software, including the creation of a technology fund. The Project List also includes the refinancing of any outstanding lease obligations or the bridge loans taken to initiate voter approved projects. The allocation of bond proceeds may be affected by the District's receipt of State matching funds and the final costs of PR-1330-10

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each project. In the absence of State matching funds, which the District will aggressively pursue to reduce the District's share of the costs of the projects, the District may not be able to complete some of the projects listed above. The budget for each project is an estimate and may be affected by factors beyond the District's control. The final cost of each project will be determined as plans are finalized, construction bids are awarded and projects are completed. Based on the final costs of each project, certain of the projects described above may be delayed or may not be completed. Demolition of existing facilities and reconstruction of facilities scheduled for repair and upgrade may occur, if the Board determines that such an approach would be more cost-effective in creating enhanced and operationally efficient campuses. Necessary site preparation/restoration and landscaping, may occur in connection with new construction, renovation or remodeling, or installation or removal of relocatable classrooms, including ingress and egress, removing, replacing, or installing irrigation, utility lines, trees and landscaping, redirecting fire access, and acquiring any necessary easements, licenses, or rights of way to the property. Bond proceeds shall be expended only for the specific purposes identified herein. Proceeds of the bonds may be used to pay or reimburse the District for the cost of District staff when performing work on or necessary and incidental to the bond projects. The District shall create an account into which proceeds of the bonds shall be deposited and comply with the reporting requirements of Government Code § 53410.

The list of authorized projects by school site is set forth below:

Creekside Early Learning Center

Install stucco on exterior over wood T-111 wood siding; replace classroom carpets; reseal and stripe asphalt playgrounds and parking lot; replace/repair rolled asphalt roofs; replace classroom furniture; replace sand and wood chip fall zones under playground equipment; install waterless urinals; technology instructional upgrades for classrooms; refinance facilities improvement loan obligations for: install solar photovoltaic system: 2011; replace classroom HVAC units: 2011; install energy efficient lighting systems: 2011; reseal and stripe playgrounds 2011; repair/replace iron exterior fence: 2011; upgrade classroom wireless internet infrastructure: 2012.

Alpine Elementary School

Paint exterior; replace classroom carpets; reseal and stripe asphalt playgrounds and parking lot; replace classroom HVAC units; replace/repair rolled asphalt roofs; replace classroom furniture; replace sand and wood chip fall zones under playground equipment; install waterless urinals; technology instructional upgrades for classrooms; replace built-in student tables and benches in cafeteria; replace classroom window systems; replace irrigation systems; install grass play field; drill irrigation water well; refinance facilities improvement loan obligations for: install solar photovoltaic system: 2006; replace classroom HVAC units: 2011; install energy efficient lighting systems: 2011; upgrade classroom wireless internet infrastructure: 2012.

Shadow Hills Elementary School

Paint exterior; replace classroom carpets; replace library and multi-purpose carpets; reseal and stripe asphalt playgrounds and parking lots; replace classroom HVAC units; replace/repair rolled asphalt roofs; replace classroom furniture; replace wood chip fall zones under playground equipment; Install waterless urinals; technology instructional upgrades for classrooms; replace classroom window systems; install covered lunch structure; Install grass play field; refinance facilities improvement loan obligations for: install solar photovoltaic system: 2011; replace classroom HVAC units: 2011; install energy efficient lighting systems: 2011; upgrade library and multi-purpose room ceilings: 2011; install electrical systems for music room: 2011; replace asphalt in front of classrooms 5 — 9: 2011; upgrade classroom wireless internet infrastructure: 2012.
BOND PROPOSITION (CONTINUED)

Boulder Oaks Elementary School
Paint exterior; reseal and stripe asphalt playgrounds and parking lot; replace classroom HVAC units; replace/repair rolled asphalt roofs; replace classroom furniture; replace sand fall zones under playground equipment; install waterless urinals; technology instructional upgrades for classrooms; drill irrigation water well; refinance facilities improvement loan obligations for: install solar photovoltaic system: 2011; replace classroom HVAC units: 2011; install energy efficient lighting systems: 2011; upgrade classroom wireless internet infrastructure: 2012.

Mt View Learning Academy

Joan MacQueen Middle School
Paint exterior; reseal and stripe asphalt playgrounds and parking lots; replace/repair rolled asphalt roofs; replace classroom furniture; replace sand fall zones under playground equipment; install waterless urinals; install grass play field; upgrade technology infrastructure in classrooms; drill irrigation water wells; refinance facilities improvement loan obligations for: install solar photovoltaic system: 2007; install solar photovoltaic system: 2011; exterior rehabilitation stucco repairs and painting: 2011; upgrade classroom wireless internet infrastructure: 2012.

District Office
Light modernization including handicapped accessibility; install HVAC systems; construction handicapped accessible bathrooms; install asphalt over dirt parking lot and school bus yard.

FISCAL ACCOUNTABILITY: IN ACCORDANCE WITH EDUCATION CODE SECTION 15272, THE BOARD OF TRUSTEES WILL APPOINT A CITIZENS’ OVERSIGHT COMMITTEE AND CONDUCT ANNUAL INDEPENDENT AUDITS TO ASSURE THAT FUNDS ARE SPENT ONLY ON DISTRICT PROJECTS AND FOR NO OTHER PURPOSE. THE EXPENDITURE OF BOND MONEY ON THESE PROJECTS IS SUBJECT TO STRINGENT FINANCIAL ACCOUNTABILITY REQUIREMENTS. BY LAW, PERFORMANCE AND FINANCIAL AUDITS WILL BE PERFORMED ANNUALLY, AND ALL BOND EXPENDITURES WILL BE MONITORED BY AN INDEPENDENT CITIZENS’ OVERSIGHT COMMITTEE TO ENSURE THAT FUNDS ARE SPENT AS PROMISED AND SPECIFIED. THE CITIZENS’ OVERSIGHT COMMITTEE MUST INCLUDE, AMONG OTHERS, REPRESENTATION OF A BONA FIDE TAXPAYERS ASSOCIATION, A BUSINESS ORGANIZATION AND A SENIOR CITIZENS ORGANIZATION. NO DISTRICT EMPLOYEES OR VENDORS ARE ALLOWED TO SERVE ON THE CITIZENS’ OVERSIGHT COMMITTEE.

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