

**BOARD FINANCE COMMITTEE MEETING MINUTES  
JUNE 9, 2008**

Members of the Board Finance Committee met on Monday, June 9, 2008, in the Dining Room of the Education Center, 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 6:40 p.m. The following school board members were present: Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Mrs. Loretta Leeson, Mrs. Charlene Koch, Dr. Craig Haytmanek, and Mr. Benjamin Tenaglia. Also in attendance were Dr. Joseph A. Lewis, superintendent of schools; Mr. Stanley J. Majewski, Jr., assistant to the superintendent for finance and administration; Mr. Les Bear and Mr. Marc Krassan, school district financial advisor from Ferris, Baker, Watts; members of the press and other interested citizens.

**FISCAL YEAR UPDATE** – Mr. Majewski stated that expenditure changes are not affected much, however, the revenue side shows that interim real estate collections are down. He stated that he expects they will be lower than initial projections. It looks as if revenue will be even weaker than projected to you previously.

Mrs. Leeson questioned whether revenue is going to be weaker this year, 2007-2008, or 2008-2009.

Mr. Majewski replied 2007-2008.

Mrs. Leeson asked how does this play into our 2008-2009 Proposed Budget.

Mr. Majewski stated that in 2008-2009 he has already anticipated weaknesses. Looking at the development cycle of the budget from last year, most of it started already in the fall. Much of the real estate activity this year where we have such a slow down has occurred throughout the year. It affects the current year, but it did give us the opportunity as we were developing next year's budget to see some of the weakness, and we have tried to incorporate that into our consideration. What actually happens in the 2008-2009 year remains to be seen, but Mr. Majewski feels that the 2008-2009 Proposed Budget revenue projections are doable.

Mrs. Leeson asked if we are saying instead of \$2.1 million dollars of a shortfall, it is now \$6.2 million dollars we are looking at?

Mr. Majewski reported that he projected a \$2.8 million dollar overall deficit fund balance, last month it was about \$2.6, now with the interims being as soft as they are, it maybe as high as \$3.5 million. I would like to think that there will be some interim activity that is yet to hit because our interims were being collected by Berkheimer, and billed this year.

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We had taken that over part way through the year because we were not satisfied how they were collecting and billing the interims, there still may be some positive results.

Mr. Majewski further stated that revenue will be coming in throughout the summer and accrue back to last year. He will keep the committee informed as to what it looks like. As of right now, he is saying that he thinks the interim real estate tax collections are softer than originally projected.

Mrs. Leeson asked how \$3.5 million dollars was going to impact our overall deficit.

Mr. Majewski stated that \$3.5 million will be the overall deficit.

Mrs. Leeson asked if this is what we basically needed the TRAN (Tax Revenue Anticipation Note) for.

Mr. Majewski explained that since we do not have a fund balance, and we do have a deficit means that we do not have sufficient cash to be able to work through our revenue cycle. We have our tax bills going out in the early part of July, most of our taxes are collected right before the discount period, and most are coming from mortgage companies through escrow accounts toward the end of August. In addition, the state may not have its budget approved by June 30, 2008. The district is scheduled to receive several million dollars during the month of July from the state. If that does not come in, than that exacerbates our problem. We need to make sure we have sufficient cash until the tax receipts come in. Should the state delay their budget even further, once the tax receipts come in we will be okay. We need to get from June 30, through the end of August with sufficient cash.

Mrs. Cann asked, regarding planning purposes for the next fiscal year, if the budget plays out as it is and the revenues projected plays out as expected, would we have the same \$3.5 million deficit at the end of next fiscal year, or will we make some inroads.

Mr. Majewski replied that it is our goal to make inroads. We have a budget that we know is a very tight budget, but throughout the year if we can find opportunities where we can save money we will. A big question mark is what will the winter be like? Will it be warm or cold, what are the prices of energy going to be like? We do not have those answers. Wherever there are opportunities, we will take advantage of them. On the revenue side, it is not known whether the valley is going to improve or it may get a little softer. A number of companies are coming in and taking a look at developments. If the properties are owned by other entities such as the Industrial Park, transfer taxes will begin to hit our books. It may happen next year. If it does, it will provide a positive impact on our revenue which should help start to reduce the deficit.

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The budget we have in place right now is not designed to reduce the deficit. It will take luck and hard work by everyone.

Mrs. Dexter would like to know if more should be cut from the budget before proceeding with the final adoption of the budget this evening.

Mr. Majewski replied he would answer that question with a question. Is the board prepared to reduce programs or increase class sizes in order to accomplish more cuts?

If the board does not wish to reduce more programs, than there is not much we can do to look at further significant reductions in the budget.

Mrs. Follweiler stated she is not comfortable with the budget with not having a fund balance and a deficit, and she feels the need to look at the budget more.

Mr. Majewski advised the committee that there is an attachment to Senate Bill 826 in Harrisburg, which, if approved, would increase the rate that is charged to the districts for PSERS (Pennsylvania School Employees Retirement System) by an additional million dollars. The rate we have now is the certified rate by the Retirement Board. At this late date, if they increase the rate for next year, from 4.76 to 7.2 percent that they are talking about, that translates into a million dollar problem for the district.

Much more discussion followed regarding whether additional cuts should be made.

Dr. Lewis stated he was going to Harrisburg the next day, and if monies are not coming through and the PSERS' rate is elevated, then the district will have to make some adjustments, and we will be prepared to do so. He does not want us to jump into cutting items that may not be necessary.

Mrs. Koch asked what is the final date we must approve a budget. She was told that it is June 30.

Mrs. Koch asked, if we have that date and we decide we need to cut more, isn't there an amount of time the public needs to be told of additional cuts to give them the opportunity to express their views?

She was told there is no lawful responsibility to notify the public.

Mrs. Leeson stated that all we need to do by June 30 is pass a balanced budget. We could always go in and make additional cuts if needed. The tax rate will not be changed if we pass the current budget, and wait to see what happens in Harrisburg.

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Mrs. Dexter stated that the board has been told they might need to borrow money to finish the construction projects for Broughal and Liberty. Mr. Majewski stated that she is correct and before Broughal is completed an additional \$4 million will be needed. It will probably impact the 2009-2010 budget.

She inquired as to whether there were changes to be made in the construction that might help us avoid borrowing at that time.

Dr. Lewis replied that we have had limited changes to the Freedom Project and there might be funds available to aid Broughal. We are anticipating somewhere between \$3 and \$4 million to finish the project.

Mrs. Dexter asked if there were things that could be put off or delayed, changes in flooring, materials, etc.

Dr. Lewis said he would look into this.

Mrs. Koch asked if we have PlanCon approval on a project does that mean things have to be completed by a certain time?

Mr. Majewski and Dr. Lewis stated that there are provisions throughout PlanCon to amend. It does require state approval. If we change the plans, it will reflect in our subsidy reimbursement.

Mr. Tenaglia, asked if there were any unfunded expenses yet with the Liberty project?

Dr. Lewis stated that the Liberty project is on schedule and is funded.

Mrs. Leeson asked for a list of specialty areas for the Broughal Project that may allow some cost savings or be delayed. She also asked for proposed costs for the demolition of Northeast Middle School.

Mr. Tenaglia inquired as to the standing of the lease of Northeast Middle School to Northampton School District and asked if they utilize the building won't that push us back into another fiscal year of possible demolition of Northeast.

Dr. Lewis responded if we were to put a bid out now, we would still be in that situation, timelines won't be impacted. Costs could be more favorable or less favorable. If there is not a lot of work, you get a better price.

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Mr. Majewski stated it also allows us time to heal some of our finances and improve them a bit, and hopefully, take on the debt service when we are better able to pay for it.

Dr. Lewis stated that the administration will provide a list on both, the Broughal Project possible adjustments, and look at a delay in both demolition projects.

Mrs. Follweiler asked where do we stand with Northampton School District.

Dr. Lewis stated that as of today it is a go. Details were still being worked on. Changes are still being worked through.

Mrs. Koch stated that she hoped someone pointed out to the people of Northampton that the district is not a high crime area. We are proud of our school, it is a good school.

Mr. Tenaglia asked if the lease would be approved at the June 23, 2008, Regular Board Meeting.

Mr. Majewski stated he is waiting to hear from Northampton's Attorney, Attorney Miller.

Mr. McKeon asked what the board's feeling is of having another meeting between now and June 30, 2008, regarding the budget.

Mrs. Leeson felt that we should keep it on schedule for June 23, 2008.

Mrs. Dexter added that Mr. Majewski notify the board immediately if another meeting is needed. If additional cuts are needed, they want to know at the earliest moment.

**APPOINTMENT OF TAX COLLECTORS** – Mr. Majewski stated that this is an annual item. It will appear on the June 23, 2008, Regular Monthly Meeting Board Agenda.

**SCHEDULE OF PAYMENTS FOR THE VO-TECH** - The board approved the Vo-Tech Budget, however, the need to approve a schedule of payments providing them with a schedule of cash flow. This schedule will be on the June 23, 2008, Regular Board Agenda.

**DESIGNATION OF DEPOSITORIES** – The board is required to approve all depositories, and this is the annual approval of the banks where we have money invested.

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**NORTHAMPTON COUNTY AREA COMMUNITY COLLEGE 2ND AMENDMENT AND EXTENSION TO THE ARTICLES OF AGREEMENT OF 1967** - Mr. Majewski stated that this is a unique item that some of the committee may be aware of if you sit on the College Board. The college is looking to obtain financing, however, they are not able to get financing with the current Articles of Agreement because the payments will run beyond the current agreement with the school districts so they are looking to get us to extend their current agreement in order to secure financing for their projects.

Mrs. Leeson asked if this was just a two-year extension. She was advised that it would go up to 2056. It is an additional 30 years.

Mrs. Cann asked if the Vo-Technical School returned the money that they were over funded.

Mr. Majewski replied that they had.

**PROPERTY AND CASUALTY INSURANCE** – Mr. Majewski informed the committee that there is a very limited market to be dealt with regarding this insurance. Mr. Majewski stated that he was very pleased with the Worker's Compensation Insurance proposal, and especially pleased with the results on the package policy.

He questioned whether the board wanted to continue the sports accident insurance as is. The current policy we have would cost \$64,000 per year. This insurance covers more than just sports. It covers recess, field trips, bands, cheerleaders, physical education classes, intramurals, non-sport extra curriculars, and the mandatory community service activities. If we removed intramurals, recess, non-sport activities, extra curricular activities and mandatory community service activities, the cost would be \$19,000 less.

The reason why it is almost one-third of the premium is due to our bad experiences. Much of the bad experiences has not come from athletics, it has come from recess, gym, and from those experiences throughout the day that have really put a burden on the carrier.

Mr. McKeon asked what exposure it would leave the district if we drop the extra coverage?

Mr. Majewski replied that it does not leave exposure for us, but those families who do not have health coverage exposes them to no coverage whatsoever. Those with health coverage will be reimbursed less their deductible.

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Mrs. Leeson stated that she is all for cost cutting, but this is not an area she would like to see cut.

Mrs. Koch asked if this insurance company has anything to do with the company that covered our civil rights case.

Mr. Majewski replied that they are the same company.

Mrs. Koch stated she would discuss this issue in executive session.

Mrs. Dexter commented that she did not think it is wise to drop the coverage either.

**SCHOOL RELATED ORGANAZATIONS** – Mr. Majewski stated a listing of school district related organizations is provided for two reasons, one it is unique, but we have agreed to have them added to our package policy at no cost. The other is, according to our lease policy, we need to identify these organizations to be qualifying as a Class 1 organization or school related. If we do not identify them here and the board does not approve them, they are then considered Class 2, or non-profit, or for profit Class 3.

Mrs. Leeson questioned why Liberty High School Swimming and Diving Association is listed but not the other athletic organizations.

Mr. Majewski replied that some of the organizations are identified as a 501(c)3. They are separate organizations and have their own coverage. Parent related organizations may, or may not always have liability insurance.

Mrs. Follweiler asked how organizations are added to our list? She was informed that the principal of the school contacts Mr. Majewski.

**TAX AND REVENUE ANTICIPATION NOTE – SERIES OF 2009** – Mr. Majewski informed the committee that the draft resolution that was sent to the committee had language in it that was not appropriate for our district. He apologized for any confusion and stated that the draft resolution will be modified.

Mr. Tenaglia inquired if Mr. Majewski planned to propose a ninety day term?

Mr. Majewski replied that the term will be there for the one year, however, we will have a pre-payment option on the loan. It keeps the options open, and if there are any other delays which would cause us to go beyond the ninety days, we still have the option. It is not the district's intent, nor is it in our interest to go longer than absolutely necessary because there will be interest expense, and we want to keep it down to a minimum.

Mr. McKeon and Mr. Tenaglia are in agreement with this decision

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Mrs. Dexter asked when will we get the finalized document?

She was told the document would be sent out the Friday before the June 23, 2008, Regular Board Meeting. Settlement is scheduled for July 3, 2008.

Mr. Tenaglia asked Mr. Majewski to discuss the Sinking Fund Provisions. What are the dollars on the Sinking Fund requirements?

Mr. Majewski replied the cash will be invested and will earn interest. As we need it, it will be there to draw down on and co-mingled with our existing funds. It will not be placed in a separate account or any type of Sinking Fund established nor is it going to be something to show up as a requirement in a final document.

Mrs. Dexter asked if the revised document could be sent before June 18, 2008, so that Mr. Tenaglia can review it before he leaves on vacation.

Mr. Majewski will arrange for the document to be sent out on June 18, 2008.

**BUDGETARY TRANSFERS** – Mr. Majewski explained that the Child Accounting Department has an Optical Imaging Department and the number of records exceeded what was allotted in the budget, thus resulting in a budgetary transfer.

**2008 HOMESTEAD AND FARMSTEAD EXCLUSION RESOLUTION** – Mr. Majewski stated this is a very complicated Act. Even though \$4.7 million has been certified to be available for use to reduce property taxes within the Bethlehem Area School District, and both counties have certified the approved Homesteads and Farmsteads, it does not happen unless the board says, “Yes, you want to reduce property taxes in the communities.” Unless the board takes action, we cannot use this money to reduce property taxes for the 2007-2008 year. The solicitor has reviewed this resolution and is in agreement with the language as worded.

Mr. McKeon asked if the monies could be used for anything else other than property tax reduction.

Mr. Majewski replied that it can only be used for property tax reduction.

**FINAL ADOPTION OF THE 2008-2009 BETHLEHEM AREA SCHOOL DISTRICT BUDGET** – Mr. Majewski presented the Resolution for the final adoption of the budget. This will appear on the June 23, 2008, Regular Board Meeting Agenda .

Mrs. Leeson stated that the committee has not gotten the format for the Reading Recovery Program. She asked for an overview of how we were going to conduct the

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Reading Recovery Program.

Dr. Lewis stated that it will be on the Curriculum Committee agenda for the June 16, 2008, meeting.

Mr. Tenaglia asked if the committee would be discussing Dr. Lewis's June 6, 2008 memo now or at Open Forum.

Dr. Lewis responded that he would like some direction. It is his belief that the board and the administration have an interest in placing the \$150,000 for department chairs back in the budget. Cabinet endorses the restoration of it, but realizes that some adjustments would need to be made somewhere. He would like to discuss this in executive session.

Mrs. Dexter stated that she sees high school principals and department chairs, and teachers in the audience and wonders if we could find out if there is any input that the committee needs to consider, such as what impact not having department chairs with the schedule that they have this year? What is the impact of the proposed budget cut from the prospective of the high school principals, and anyone else that would like to address it?

Dr. Lewis concurred. He stated that the administration would like to restore this because the district is focusing on high school restructuring as a number one curriculum instruction priority.

The committee agreed to receive input from the audience regarding department chairs.

Mrs. Durante spoke on behalf of Liberty High School. She relies heavily on her department chairs. You cannot run the building without them. She would like to see the board restore them to where they are currently this year.

Mr. LaPorta spoke on behalf of Freedom High School and also asked for the board's support to restore the department chairs.

Mrs. Dexter stated that a memorandum from Dr. Lewis pointed out that the way the budget currently stands, the core subject areas, social studies, English, science, and math would have department chairs only teach two courses each semester, but the other department chairs such as physical education, fine arts, business, foreign language, and special education would be on different schedules. She asked is it your position as building principals that it is equally important for all of the topic areas for the department heads to have time available for planning, and leadership development, etc?

Mrs. Durante stated that what we have now is pretty good. She strongly supports what we have now.

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Mrs. Follweiler asked if \$150,000 was put back in the budget, would it get the district where it is today? Do we have to find an additional \$150,000 from somewhere else? If so, we have to go back and review what other cuts to make.

Dr. Lewis stated that it could be done right now.

Mrs. Leeson feels that the cuts already made are good ones.

Dr. Lewis stated that the administration still needs direction in finding \$90,000 to \$100,000.

Much discussion followed with regard to cuts in athletics.

It was noted that another area to cut would be fundraisers, or budget-funded student activities. Some activities we fund, others we do not.

Mr. McKeon asked if the committee wants to sit down with the head of the BEA and discuss the coaching staff?

Mrs. Follweiler wants to know what the rules are. Are there rules or recommendations set up by the state, what are they, do we comply, are we over, etc., with regard to the number of coaching staff?

Mr. Majewski suggests increasing admission fees to events.

Dr. Lewis stated we have some ideas, but we need to flush them out and make them happen. He would like exact numbers.

Mr. McKeon asked to look into collection for admission to school activities.

Mrs. Dexter suggested that we list these cuts and discuss them at the Human Resources Committee Meeting.

**403(b) PLAN UPDATE** – Mr. Majewski informed the committee that he will be meeting with the IU 20 group to review the nine proposals received for Third Party Administration Services. He will inform the committee of the results and recommendations at a future meeting.

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**EXTERMINATOR/PEST CONTROL SERVICES BID** – Mr. Majewski stated that the original bids were rejected and we are re-bidding them. Potentially, the apparent low bidder made the assumption that the MSDS sheets that were sent the first time around were already here in the office so they were not included in his second submission.

The district reserves the right to do whatever is in the best interest of the school district. Mr. Majewski asked if the committee is willing to waive the technicality that the MSDS sheets were not included with the second bid. The only technicality that would be waived is the requirement to provide the MSDS sheets.

The committee agreed to waive the technicality.

**OPEN FORUM** – Mrs. Leeson stated that Mrs. McHale of Northampton County Council has asked the board to support the county's proposal that St. Luke's is going to purchase land and graciously has invited the board to participate in the discussion about the process. She stated that the meeting is going to be held on June 11, for Northampton County Council's approval. It regards financing and the board should have no standing in the situation at all. Some of the property will become non-taxable, but not all of it will.

Mr. Majewski indicated that he contacted Northampton County to acquire some additional information. He asked about a site development plan, because he needed to know potentially, with the development, which part would be tax exempt, and what part would be taxable. When the meeting was held on June 5, St. Luke's was not in attendance, nor was this information presented.

The County did not have any ideas to report as to what was taxable and what was not. In the end, the board has no final say as to what is to be done and what is not to be done. The district has to depend on Northampton County Council to make whatever decision they believe is in the best interest of Northampton County. It is a courtesy that they provide us with information, but even if you attend and made comments, there is no standing that the district has.

Mr. McKeon stated that the issue is financing. There is nothing the district can do.

Dr. Lewis stated that this is not a school district matter. He suggests, that if, at some time, St. Luke's or anybody, would request from us some kind of tax consideration, such as LERTA or a TIF, or some other abatement, then it would become a school district matter. He also indicated that the zoning on this property is commercial/industrial. Rezoning is a long way off.

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Mrs. Leeson thanked the representatives from St. Luke's for all the support they have given the district over the years.

Mr. Tenaglia asked if Open Forum would continue or would it continue after the Ferris, Baker Watts presentation.

Mr. McKeon stated that Open Forum would be finished before the Ferris, Baker, Watts presentation.

Mr. Tenaglia referred to Mr. Majewski's memorandum of June 6, 2008, regarding the Clinton campaign, wherein it was stated that several efforts were made to make collection, but were unsuccessful. Mr. Tenaglia asked how Mr. Majewski would like to proceed.

Mr. Majewski replied that the memorandum was sent as a matter of information. He has made attempts at the state level, both by telephone and e-mail. He has contacted Mrs. Clinton's national office in Alexandria, Virginia. No one, to date, has provided him with a response or recognition that he contacted them. He assumes that we are being ignored, and he believes we will need to absorb these costs.

Mrs. Dexter asked if there was a signed lease agreement?

Dr. Lewis replied that this function was coordinated through the Governor's and the Mayor's offices, and to his knowledge, there was no lease agreement.

Much discussion followed.

Mrs. Follweiler stated that the board was specific that there would be no cost incurred to the district or taxpayers. She requested that Dr. Lewis contact the Governor and the Mayor's office.

Dr. Lewis stated he will be going to Harrisburg in the morning and will deliver the message.

Mrs. Follweiler stated that all rentals should follow the proper procedures

**FERRIS, BAKER, WATTS** – Mr. Bear provided the committee with an overview of services provided by Ferris, Baker, Watts. He gave an in-depth presentation explaining debt management of the three swap agreements. The swaps served to lock-in a long-term fixed interest rate and provide the district with upfront payments

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It is estimated that the district will realize positive net swap payments totaling over \$35,000,000 over the life of the swaps.

The financial advisory fees paid with the execution of the basis swaps were as follows: Swap 1 \$295,000; Swap 2 \$335,000; and Swap 3 \$128,000.

Upfront actual payments have been \$7,042,493 so far on the transactions just with upfront payments. To date, additional benefits, as a result of the transactions have been in excess of \$3,000,000, on top of the \$7,000,000. The district has realized \$10,000,000 of benefits as a result of the transactions that were done. The district will continue to realize benefits as a result of the forward starts because interest rates will still be lower than the current market.

Mr. Bear stated that every other firm in Pennsylvania charges between \$2,500 and \$20,000 for every Swap. Under Act 23, Ferris, Baker, Watts, has to give you a report valuing the Swap as of June 30, every year. Ferris, Baker, Watts, charges a fee up front. They do not charge for interest rate monitoring. Their total fee was \$2 million, deduct the \$480,000 and their total fee was \$1,525,000. You will be getting a return of \$55,000,000.

Mrs. Cann asked if the fee of 3 basis points is a one time fee.

Mr. Bear replied that it is. Remarketing is required. Remarketing fees will continue. If the district accelerates the repayment of the debt, the remarketing fee will be reduced. If the district changes the structure of the debt, that would change the remarketing fee. If the Swap was terminated, the remarketing fee would be eliminated.

Mrs. Follweiler asked if she was correct in understanding that the district has gained more from remarketing than the fees it has incurred.

Mr. Bear replied that she was correct.

Mrs. Leeson questioned the upfront actual payments that were received, if they are at risk at any time, or is this money in the bank, and we will never have to touch it all.

Mr. Majewski stated that the money is not in the bank. We receive those funds, and they are used to pay for expenses or to reduce tax increases. No one has ownership of that money except the district. It is our money, no one can take it away from us.

Mrs. Leeson questioned the fees charged by Ferris, Baker, Watts. How much was paid to other professionals for their fees? Mrs. Leeson referred to the article published by Bloomberg News.

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Mr. Bear replied that it is his obligation to get comparative prices.

Mr. Bear introduced Mr. Marc Krassan his associate from Ferris, Baker, Watts. Mr. Krassan stated that when counter-parties are shopped, they have to have a minimum credit threshold. The firm of Bear Sterns was referred to. Mr. Krassan stated that at one point Bear Sterns certainly had a minimum credit threshold. As part of what a bank has to do in setting aside contingent liabilities, there are provisions in Swap agreements that if a counter-party, (the bank) falls below what the minimum threshold is of credit established, they have to put cash in an account in escrow in the event they were to default, then the cash is there to provide contingent payments for the life of the transaction. That is what counter-parties do.

Mr. Majewski brought the topic up in response to why we use certain banks rather than others. What you need to look at is what banks have been least affected by the sub prime issue. JP Morgan has come out better than most. We need to be careful who we are dealing with. This is all part of what a financial advisor is looking at in making recommendations.

Mrs. Leeson quoted an newspaper article which stated that Bethlehem paid ten times more than the school district of Easton did for the same type of Swap.

Mr. Majewski informed the committee that he contacted Easton School District and was told that the information published was erroneous. There are on going costs associated with Easton's financing that were never reported or considered.

Costs that are not charged to us were charged to Easton. Easton's costs were not 1/10 of ours. The article never compared the amount of financing. There were selective facts that were being used in order to make the comparisons.

Mrs. Leeson asked what the differences were.

Mr. Bear responded that Easton paid \$65,000 up front. Then, they paid an additional \$65,000 when the actual transaction as a Forward Start was done. They did not factor in the interest rate monitoring cost. Add all that together, it was higher than Ferris, Baker, Watts charged Bethlehem.

Discussion followed with regard to the different roles involved in making a Swap happen.

Mr. Majewski stated that while fees are important, experience is more so. Mr. Bear has worked with this type of financing and has experience setting it up. None of his deals has every gone bad.

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Mr. Tenaglia asked, with regard to the counter-parties, in addition to JP Morgan and Morgan Stanley, West Cornwall Municipal Authority, and Shippensburg Borough were also mentioned. He asked what their roles were in these transactions, and what exposure does the district have to their credit quality.

Mr. Bear responded by saying that the law after 2003, had been modified slightly in 2005, and indicated that if the district wanted to continue to receive state reimbursement on transactions such as this, just on the debt service, a loan agreement had to be created.

School districts cannot create loan agreements. They must go to an independent authority to do so. The district needed a loan agreement in 2003, because the law wasn't in place at that time. Mr. Bear went to West Cornwall. They are a conduit. If West Cornwall disappears tomorrow, we do not need West Cornwall to do this transaction anymore. We just used them to put the transaction in place. Shippensburg Borough Authority was the same situation.

Mr. Tenaglia asked, with regard to the weekly reset, how is that vehicle different than the municipal auction rate deference?

Mr. Bear replied that it is always a concern. Are we going to be able to reset the rate, and are we going to find investors that are willing to buy this? That's why we have liquidity. If we are not able to place that, then we have the backup of that firm placing it for us.

In reality, we had a \$30,000,000 liability two months ago. We carried that on our books, we did not want put it back to the liquidity. That was the highest liability that we had during the entire mess that we have gone through with auction rate. We are not involved in auction rate. We are not even close to auction rate. Variable rate is something that is very attractive to investors, it's a national rate that is set BMA or SIFMA as it is now called, is a national rate, and the remarketing is basically done on top of that rate. Some weeks it is marked up 4 basis points, some weeks it's 3 basis points, some weeks it is less than that, all depends on the market we are dealing with at that time.

Mr. Bear stated that we have always used FSA Insurance Company. They have a AAA rating and we have used Dexia, they are shining stars. We work only with the best.

Mr. Majewski asked if FSA has gotten involved outside of the municipal market? Mr. Bear stated that it is one of the reasons that they are the #1 bond insurer.

Mr. Majewski stated when working with the Financial Advisor, it is very important that they know the parties that we are dealing with, so that they make recommendations that are not just going to be short-term benefit, but stick with us long-term. Les Bear and his firm research these things, we structure it so that it is financing that minimizes the risk.

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Our job is to create something that is going to work and not be a burden on the taxpayers. What we have done over the years has provided financing for projects at a cost that is very enviable.

Mrs. Leeson asked about some of the rates. It is her understanding that you are required to get three quotes, and make sure that of the three quotes we are paying the lowest rate. She asked if they get involved with how much is interest, and how much goes to JP Morgan?

Mr. Bear stated when you do a conventional refunding it increases the principal of the size of the issue, but it reduces the cost of the money. Look at the bottom line, can we save money?

Mr. McKeon referenced an article regarding a county in Alabama that is having problems with a Swap action.

Mr. Bear stated that he does not believe what he reads in the newspaper. The number of transactions put on top of that debt, seemed exorbitant. The fees seem to be high, but he doesn't know the facts so he can't really speak to it.

Mr. McKeon stated that some of the Wall Street firms have been given Wells Notices. He asked if any of our underwriters or counter-parties been subjected to Wells Notices.

Mr. Bear stated he had no knowledge of that.

Mr. McKeon indicated it is his understanding that a couple of firms have received notices from the SEC regarding their municipal bonds asking for further information before they, (the SEC) make some type of judgment. Six or seven Wall Street firms have received notices.

Mrs. Dexter, referred to the Bloomsburg Article which was published in February. The committee asked Mr. Bear to reply to questions, at that point, and were informed that Mr. Bear was not available. She indicated that that fact has impacted her view of what's taking place.

Mr. Bear stated that what we are saying to you tonight is what can be said. We had to look at our remedies that were available, whenever things are said that are incorrect, and create an environment that is simply untrue, we need to look at that in a different way. He stated that they needed time before they could come and present some of the things that were presented tonight. He stated that they continue to look at different options, but what is being said tonight is a real big success story. He would have liked to come to the committee in March and done the same thing, but he did not have that option at that time.

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**COURTESY OF THE FLOOR** – Mr. Kritis stated that he had been in the education business for 38 years and remarked with regard to Mrs. Durante’s presentation. If you need to save \$150,000 you have to weigh that to the contribution these department chairs make to the principals. Department Chairmen are supposed to be master teachers. They should be in the classroom. Get them in the classroom and it will help the quality of instruction, particularly in core subjects. He hopes for the department chairs to bite the bullet for one or two years. It is not too much to ask.

He stated that he was led to believe that a contract was signed with health insurance people for three years. He asked if that was true.

Mr. Majewski stated that board action was taken in March.

Mr. Kritis stated that he would like to review the contract.

Mr. Majewski stated that he should put his request in writing, and he would be charged for copying costs.

Mr. Steven Antalics stated that the Department of Education does not mandate extra curricular activities, therefore, the function of the board and the district is to educate the children. He feels using funds for extra-curricular activities is a misplacement of funds. He suggests that the district exert their power and cut extra-curricular activities.

Mr. McKeon adjourned the meeting at 9:45 p.m.

Minutes prepared by:

Adele Embardino, Confidential Secretary to the Assistant to the Superintendent for Finance and Administration