

**BOARD FINANCE COMMITTEE MEETING MINUTES  
SEPTEMBER 8, 2008  
REVISED**

Members of the Board Finance Committee met on Monday, September 8, 2008, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 9:08 p.m. The following school board members were present: Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Mrs. Loretta Leeson, Mrs. Charlene Koch, 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. Thomas Washington, assistant superintendent for human resources; members of the press and other interested citizens.

**FISCAL YEAR UPDATE** – Mr. Majewski provided information on both revenues and expenditures through the month of August. He stated that he has not calculated the beginning of the year projections. This early in the year there is not sufficient information to provide projections. The projection column is left blank. As the June 30, 2008, audit nears completion, that column will be filled in, likely after the September meeting. He asked if there were any questions.

Mrs. Leeson stated she has a few questions. She asked for clarification regarding the condition of the budget expenditure for vocational education. There are unpaid encumbrances of \$4,170,000, and a budget balance of \$2,900,000. Please explain.

Mr. Majewski provided an explanation of an encumbrance. An encumbrance is not an expenditure. It is not a check that is being written, it actually is not even a valid obligation that we book on financial records. In governmental accounting, it is a way to be able to identify appropriations. If you have a purchase order with all approved signatures on it that will generate an encumbrance. As you start making payments, if there are progress payments, you may relieve a portion of that purchase order, therefore, reducing the encumbrance. As of June 30, if you have any type of encumbrance that is left it is removed from the system because it is not considered to be an expenditure. It is a way to be able to manage the budget through identifying approved appropriations, and than taking that money out of the system. As an example, if you have a \$10,000 budget, and an order is placed with a local company for \$1,000, if you did not book an encumbrance you would think that you still had \$10,000. By putting in that \$1,000 expenditure, it shows that we only have \$9,000 of that appropriation available to spend. That is the value of an encumbrance. It restricts use of those funds so that they cannot be spent twice.

Mrs. Leeson asked why \$4.1 million of the vocational education budget is shown as expended.

Mr. Majewski replied that we have already approved the Bethlehem Area Vo-tech Budget. There is a purchase order set up for the entire amount of the approval, thereby, obligating all of those funds. The Community College is the same way. We have approved their budgets and established a purchase order, but we pay both of them differently. The Community College, we pay monthly, and we relieve a portion every month. With the Bethlehem Area Vo-tech, we approved a payment schedule, and it is a bi-weekly payment we make to them.

Mrs. Leeson questioned why does Vo-Tech have \$4.1 million in unpaid encumbrances and \$2.9 million in a budget balance; and Community College \$1.6 million in unpaid encumbrances and \$0 in a budget balance?

Mr. Majewski responded that there are other types of accounts that show up as vocational education not just Bethlehem Area Vo-Tech. What you may have under vocational spending will be our own vocational programs. We may have vocational programs such as home economics, anything for us that starts up with a function 13, the state defines as vocational education. We at the school district run those programs.

Mrs. Follweiler expressed surprise that the district operates \$3,000,000 work of vocational programs.

Mr. Majewski, stated absolutely, the entire business department, industrial arts, home economics, and some technologies are coded 13. We account for these vocational programs using the state's chart of accounts.

Dr. Lewis stated that it covers staffing, supplies, benefits, everything.

Mrs. Cann asked if the unexpended is net of the \$4,000,000. Has the Bethlehem Area Vocational-Technical School already been subtracted?

Mr. Majewski replied it has already been subtracted.

Dr. Lewis stated that the remaining budget for vocational education is primarily driven by salaries paid out over multiple pay periods that is why that balance is there.

Mr. Majewski stated that is exactly what you are looking at. When we start making the projections, we will take a look at the activity that is occurring and try to extract that out which is why when we are putting in the projections, it will not look like anything like this because he may see what we are paying on a bi-weekly basis. He will then look at the number of pays; and then do the multiplication, and come up with a projection.

This type of report is straight up, payments, what purchase orders have been set up, and the difference from the budget is what you are going to see as the budget balance.

Mr. Tenaglia stated he is still unclear, as to unpaid encumbrances in some of our board members opinion is money that we said we would spend but we have not actually paid it yet.

Mr. Majewski stated that for many of the items that is exactly what it is.

Mr. Tenaglia went on to say that with debt service we are obligated to make the interest payments. Some of them are variable and you do not know what the amounts are because of the swap and the offsets. We get that from the transfer agent. It is an internal process that the business office does. How can we fix that so we know on our debts what certain specified interest payment dates are what our obligations are?

Mr. Majewski responded at least with the principle. What we have right now is several moving parts. We have a variable component that we take a look at, swaps can work both ways. He can set that up for the debt service but it would not be as useful. The problem functionally with setting that up as a purchase order, once all the approvals are given right now on a purchase order, what happens is someone will sign off and say it is okay to pay and it gives the ability, as the invoices are coming in, to process the payment. With Debt Service, the person who is making the wire, will not have that type of ability to review the validity of the calculation and authorize the payment. We want every single one to be reviewed. We do the calculations to make sure they are due in the correct number of days. We make sure that the rate of interest is the same. It does not lend itself that well for encumbrance type of accounting.

Mr. Tenaglia stated that we know what the principle sinking fund payments are. You know what the fixed rate, not on the swap issues, but outstanding traditional fixed rate debt, you know what those payments are.

Mr. Majewski responded yes, that is how you establish what your budget will be.

Mr. Tenaglia continued stating it seems that other than keeping away from the fixed and variable swap, going back to either the sinking fund payments, fixed coupon older outstanding debt issues, it seems truly definitively as to why you would call that encumbered or an encumbrance.

Mr. Majewski questioned what did Mr. Tenaglia see as an advantage of setting up an encumbrance for debt service? From his prospective, he sees any number of advantages of not establishing it. What are you viewing as the advantage?

Mr. Tenaglia stated that he is inferring that we know we have approximately \$10,000,000 to pay back plus interest to look over. You have no encumbered position for that right now.

Mr. Majewski replied that he has no encumbered position for any of the debt service right now.

Mr. Tenaglia stated that his point was that we have a \$10,000,000 expenditure, and other than having an internal process there is no column showing that you have that obligation on the budget.

Mr. Majewski explained that if he set up an encumbrance for debt service it would look like the account had \$0 dollars left in it because that's exactly what it would be. We would have encumbered all our known principle and interest at the beginning of the year. You would never be able to see what is happening with the payments throughout. That is what is important for him, taking a look at the ebbs and flows.

Mr. Tenaglia remarked that we have a \$0 dollar balance in the Community College budget.

Mr. Majewski replied that is because it cannot and will not change as there is no variable.

More discussion followed on setting up a debt service encumbrance.

Mrs. Leeson questioned that the expended budget for 2008-2009, compared to the 2007-2008 in some of the areas was widely different. The board had an expended budget of \$30,000 versus \$17,000 of last year.

Mr. Majewski will take a look at that. He believes it might have been the timing of the payments made to the auditor.

Mrs. Leeson questioned Public Relations expenditure of \$15,466 and stated she thought we had eliminated that.

Dr. Lewis replied that the office was eliminated but expenses for the calendars, newsletters, and production were not. The office and salaries were eliminated but expenditures still fall under this for functions.

Mrs. Leeson questioned Information and Communications Technology Department expenditures of \$1.1 million versus \$613,000.

Mr. Majewski replied that this was due to the payment to GE Capital on the existing leases. Last year there was a delay in the \$800,000 payment as we were going through and having discussions on the restructuring of one of the leases. Tied to that was an \$832,000 payment which would have come the following month. We were late in getting in our payment, and he negotiated the late fees.

Mrs. Dexter asked why the Superintendent's budget went down in expenditures from \$78,000 this same time last year.

The administration will look into this and respond at a later meeting.

Mrs. Dexter asked why Summer Guidance was up \$3,000 from last year.

Dr. Lewis believes it was not additional days, but salary increases. He stated that sometimes we replace a counselor with someone who has more experience, or is higher on the scale.

Mr. Majewski replied that a lot of the increases has to do with time. Taking a look at expenditures detail this early in the year, you are running into reversals from the prior year until things hit, it becomes a timing issue. Once we are past the first quarter we have worked through some of that and the information is probably more normalized with the prior year.

Mrs. Dexter questioned Instructional Materials Reserve is down by \$300,000.

Mr. Majewski stated those are textbook orders have been approved and have be placed. We spent about \$700,000 last year but we reduced the budget several hundred thousand from last year to this year. That would explain why there is a reduced expenditure.

Mrs. Dexter asked about an overtime expense for an Ed Center employee which was \$16,000 the last budget year and already it was \$2,300 on August 7, 2008. What is that about?

Mr. Majewski responded the individual does a lot of production work during the summer and the beginning of school. The cost of bringing another person on board, not to mention a space issue and an equipment issue, is probably closer to \$40,000. Allowing this employee to come in early, stay late, or work weekends is more cost effective.

Mrs. Dexter inquired about having a part-time person to assist in the production of the school booklets.

Mr. Majewski stated that there is not enough space for another person to run equipment. We have two pieces of equipment that run flat out right now by one person. That individual is running the equipment, even part-time, you are looking at close to \$20,000 with part-time, and I'm paying benefits. It would still cost more than to pay this person overtime.

Mrs. Dexter stated we are paying a person \$25 hour overtime?

Much discussion followed with regard to having part-time people come in throughout the year as opposed to paying the district employee overtime.

Mr. Majewski explained why we continue in the manner that we have not to disrupt other departments if we have change in staff and the other is cost. It has worked well up to this with the overtime, if that changes he will come back with a different recommendation. For now he would rather pay the overtime than add another person.

Mr. McKeon stated that he, Mr. Tenaglia, and Mrs. Leeson met with the new auditor. The auditor asked, as a taxpayer, we have given all these reductions in taxes through the casino money, what is the mechanism that you get reimbursed?

Mr. Majewski responded that the \$181 per homestead/farmstead totaling about \$4.7 million dollars, that we gave back to the taxpayer, there are two payments being made from the state. The first payment was made in July and the other will be in October.

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**CLINTON INVOICE** – Mr. Majewski informed the committee after making several attempts, no one is responding from the Clinton campaign, and he is fairly well convinced that we will not, at this point, receive reimbursement directly from the Clinton campaign. He cannot find a person who will work with him anymore on trying to get an answer as to how this is going to be booked on their records.

Mr. McKeon asked if this now becomes an issue for the state democratic chairperson and the governor since they are of the same party? There are other school districts that were impacted. He suggested maybe we as a board should put a letter together and sign it.

Mrs. Koch stated that she will be filling out a report for PSBA and that would go to all the other regional directors and then be disbursed further. We might hear something back if she includes that in her report.

Mr. McKeon indicated that this would be a good idea.

Mrs. Follweiler stated that she liked the idea of writing to the democratic chairperson and asked how to move forward on that.

Dr. Lewis said he would work on drafting a letter.

**AUTHORIZATION TO EXONERATE TAXES** – Two agenda items asking for authorization to exonerate 2008-2009 school taxes was discussed. Mr. Majewski explained the reasons for the requests. The board must direct the district to either collect the taxes for the City of Bethlehem or the board must approve an exoneration.

Mr. McKeon asked where the parcels are.

Mrs. Behers responded they are located on Wyandotte Street, East Third Street, West Third Street, Brodhead Avenue, Polk Street, Railroad Street, Hillside Drive, and two on Hellertown Road.

Dr. Lewis asked for location of the Bethlehem Township properties. Mrs. Behers responded that they are Christian Spring Road, Anthony Court, and Rexford Drive.

Mrs. Follweiler questioned if all these properties want to become tax exempt. She was told the answer was yes.

Discussion followed as to whether or not to approve the exonerations for this year since they will automatically be exonerated next year.

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Mrs. Follweiler went on to question whether the \$9,000 was the Township and the City.

Dr. Lewis and Mr. Majewski responded that the Township is \$9,100 and the City is \$4,700.

Mrs. Follweiler questioned what are the advantages and disadvantages.

Dr. Lewis explained that the City and Township have an excellent working relationship with the district and it is the administrations recommendation that the board exonerates these taxes.

Mr. Tenaglia asked if all the prior were paid on these properties.

Mr. Majewski stated that there are no outstanding taxes on these properties prior to 2008-2009.

**PLANNING-BUDGETING GUIDELINES FOR 2009-2010 BUDGET** – Mr. Majewski presented a document listing the guidelines, as well as a calendar of events which is updated to meet the current guidelines as required by Act 1. As of today we do not have the index with our requirements. Last year the index came out on the 7th of September. He will let the committee know what the requirements will be as soon as he hears.

Mrs. Leeson questioned whether the class size guidelines have changed in the past five years.

She questioned the per student allocation by level and asked if we are using the per student allocation and does it go to the building level or do they have to come and request.

Dr. Lewis replied it is both. The allocation has typically gone to the building. Mr. Majewski manages that and he will adjust it according to actual enrollments, and now we are approving everything. The second part of the answer is that every expenditure is being looked at.

Mrs. Leeson stated that some schools will be getting their full allocations and some will not because of the adjustments.

Discussion ensued on the allocations per building and how requests were handled. Mr. Majewski stated that funding has not been taken away. We will review for the appropriateness and determine if there is a better way to provide them with what they are requesting.

Dr. Lewis stated that everyone has been asked to reassess their needs. The administration is trying to provide what is needed and create a fund balance in each of the schools. If the item is not needed, do not order it.

Mr. Majewski stated if a request is appropriate, it will be approved.

Further discussion continued on what would happen if money was left over at the end of the year.

Mrs. Koch expressed concern on what happens to the funds that are not expended at the end of the year.

Discussion followed on what was the incentive for principals to not expend their budget. It was explained that the system now in place is working. If a school has needs without having funds, other schools with surplus funds will help out. The district is trying to work as a group. There are regular discussions with the principals.

Mr. Tenaglia questioned when board input begins.

Mr. Majewski explained that once the administration has devised a proposed plan, a document is created, and it becomes available for board and public input.

Dr. Lewis stated that the administration looks at the revenue side as well as expenditures in order to create a document.

Mrs. Leeson stated that prior to Act 1 there was only one round of budget hearings which would start in April. Now we have a two round system. The board has to answer one question by February 17, 2009, which is, are we going to raise taxes more than the index will allow? That is the question we have to answer. We will get all this input from the administration to be able to answer that question. We still have a lot of room to maneuver

between February 17 and June 22, 2009. The board has the opportunity to add or subtract budget hearings from February 17, 2009.

More discussion on the number of hearings followed.

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Mrs. Dexter questioned whether principals were allowed to purchase library books from the allocations.

Mr. Majewski stated that they were.

Mrs. Dexter stated that the high schools do not have enough calculators among the students who are testing.

Mrs. Dexter feels that additional calculators should be on hand in case a student forgets theirs.

Mrs. Koch mentioned that she has been concerned that some students will be short changed if they get inexperienced teachers.

Dr. Lewis informed Mrs. Koch that the staff is evaluated yearly with regard with to experienced and new staff.

Mrs. Leeson stated that calculators could be moved back and forth between the high schools.

Mrs. Leeson suggested moving the calculators from school to school.

Dr. Lewis stated that this would be researched.

Mrs. Follweiler stated she would like Mr. Washington to look into the balance of teachers at the schools and discuss it at a future Human Resource Meeting.

Discussion followed regarding teacher contracts and conditions. Right now Liberty has a rash of newer teachers as a result of a lot of retirements.

**COURTESY OF THE FLOOR** – None

**OPEN FORUM** – Mrs. Leeson suggested changing Courtesy of the Floor to the beginning of the meeting.

Mr. Tenaglia stated that we have to hold to the rules and respect the time limit.

Mr. McKeon suggested splitting the time limit. Have some time at the beginning and some time at the end.

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Mrs. Dexter was in agreement with moving Courtesy of the Floor to the beginning, and if necessary, have additional time at the end of the meeting.

Mrs. Follweiler agreed with having two courtesies, but agreed to limit the time.

Much more discussion followed regarding moving Courtesy of the Floor from the back of the agenda to the front of the agenda, with the provision if additional courtesy is needed it can be added.

Mr. McKeon told the committee that he has heard JP Morgan has decided to exit the swap business. He stated that he is wondering if the district should become involved with the investigations and contact the SEC.

Mrs. Dexter stated that she agrees that we should look into this.

Mr. Majewski and Mr. Tenaglia have discussed the situation and feel the need to conclude whether or not we are okay. Mr. Majewski suggested an independent party come in and look into it.

Mr. Majewski will look into whom to contact with regard to this situation.

The meeting adjourned at 10:27 p.m.

Minutes prepared by  
Assistant to the Superintendent for Finance and Administration

Confidential Secretary to the