

**BOARD FINANCE COMMITTEE MEETING MINUTES  
OCTOBER 27, 2008**

Members of the Board Finance Committee met on Monday, October 27, 2008, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 6:30 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. Thomas Washington, assistant superintendent for human resources; members of the press and other interested citizens.

**BOND COUNSEL** – Mr. Majewski stated that Bond Counsel is a very important part of the team. The team is not complete without Bond Counsel. While there are not very many market opportunities at this time, there are strategies that we need to be discussing and considering. A couple of weeks ago the rates of LIBOR and SIFMA were a disaster for us. The current impact on the district, as a result of LIBOR and SIFMA are at break even or slightly positive.

We still have problems with the resets. Taking a look at remarketing requires people with legal expertise in these areas to take a look at the agreements and determine what we can do, and how quickly we can do it. It is important that we complete the team with a Bond Counsel so that we can continue taking a look at opportunities to restructure. We need to do it as quickly as possible. In this very volatile market things come and go, and they change. We are starting to take a look at possibilities with some of the remarketing. Possibly restructuring our remarketing opportunities too.

Everything we take a look at doing requires a legal review of the documents. He is asking the board to pick from the three names provided. PFM has provided these names. Mr. Majewski is looking for direction as it is very important to get this team together. He needs to know if these names are acceptable, do we take a look at one of those names, and possibly hire them.

Are there some other individuals the board would like to take a look at so that we can move closer to completing our team?

Mrs. Leeson asked about Bond Counsel some of the other municipalities in the area have used. Have we surveyed the county?

**BOARD FINANCE COMMITTEE MINUTES  
OCTOBER 27, 2008  
PAGE 2**

Mr. Majewski replied that PFM, being the Financial Advisor, is a very large player in the market, and has a broad expertise in this area. Their recommendation would be very useful. He did not survey everybody in the area as there would be some people we do not know.

Mrs. Leeson would like to get some cross over names, ask different sources, and get some cross over names. If we hear the same name more than once, it would help us sift through.

Mr. Majewski stated that he would be happy to do whatever she asks. Time is of the essence in getting through and getting a Bond Counsel on board. He is hoping that we could identify and hire Counsel.

Mr. Tenaglia asked what the Bond Counsel would be doing.

Mr. Majewski replied, right now we are considering some of the possibilities to replace Dexia. We have a bank that has expressed an interest in a Letter of Credit. Whether it is going to happen he does not know. We would like to have a review of the Remarketing Agreement, and the Stand-by Agreements. We need a legal counsel to review what we can and cannot do.

No matter what we do when we are restructuring it is going to require an opinion of the Counsel. If we have someone on board now who understands, when the opportunities present themselves; we can take advantage of those opportunities. If we delay the process, we delay the ability to affect some type of change.

Mr. Tenaglia stated that we have no specific work for Bond Counsel to do at the moment.

Mr. Majewski stated that we do. If we have all the rates working for us, the only problem would be in the resets. He believes we can get them involved in taking a look at the process of the documents, establishing a remarketing agent, or two remarketing agents, to be able to take a look at, if we are interested, in getting away from FSA and Dexia relationships. Possibly going with Letters of Credits, taking a look at the legal requirements of that type of move.

Mr. Majewski feels that type of move is something we can do now. We can get away from FSA and Dexia. This will help "stop the bleeding." The resets are destroying our ability to break even. We need to get the bonds back. We cannot leave them as Bank Bonds because it will end up becoming an issue for us longer term.

**BOARD FINANCE COMMITTEE MINUTES**  
**OCTOBER 27, 2008**  
**PAGE 3**

Mr. Tenaglia asked, do we want to designate a Counsel to be in place so when PFM puts together a program that will require the drafting of legal documents, they can then go to Attorney X as the designated Bond Counsel for the Bethlehem Area School District?

Mr. Majewski replied yes. PFM can work on structuring, but we need a legal review to say what can we do, and when can we do it. Bond Counsel will need to review all the bond counsel books that were put together.

Dr. Lewis added that we could, theoretically, involve Bond Counsel on a one time basis. We do not have to commit contractually for a term. Yes, we do not have anything right now for a Bond Counsel, but we need to have someone in place should the board decide to take certain issues and remarket them. What are the liabilities in doing so, what are our commitments to FSA and Dexia, what might be some drawbacks, if any?

New documents may need to be drafted, or is the Letter of Credit piece an option that frees us from the connection to Dexia? If so, might we be benefiting from acquiring short-term and then re-issuance. Those documents would need to be created quickly, and reviewed. We do not want to be caught in a situation where we have a favorable opportunity and no one to review it.

Mr. Tenaglia asked if our retainer with King, Spry gives us any concession on fee.

Dr. Lewis replied that there is a requirement on local review. Typically, that is 50 percent of Bond Counsel which should be an independent party.

Mr. Majewski stated FSA/Dexia is the biggest drag we have going right now. He feels we can start addressing this now as banks are starting to loosen up with the liquidity a little bit. If we can get a Letter of Credit, we may be able to pry ourselves away from FSA/Dexia and maybe we can get some of the Bank Bonds back on the street again. That is what our goal is. He believes we can get that started now. Then we can move forward with other initiatives.

Mrs. Follweiler stated one of the recommendations for Bond Counsel from PFM was someone from King, Spry. Do we have to enter into a separate agreement if we already have King, Spry retained? If we want to select a member of their staff to use as Bond Counsel, do we need to enter a separate agreement?

Mr. Majewski replied that we do not need to enter into a separate agreement. We need to get the board's direction to use King, Spry as Bond Counsel.

Mrs. Follweiler asked if we just need to identify someone, we will not be spending any money at this point.

**BOARD FINANCE COMMITTEE MINUTES  
OCTOBER 27, 2008  
PAGE 4**

Dr. Lewis stated that the district does have an agreement in place. He referenced page 3 of their proposal, there is a de-escalated scale which indicates that it is addressed in our agreement. Dr. Lewis stated we could do that. The administration needs direction.

Mrs. Leeson stated the board needs to know what the administrations' thinking is regarding moving forward. What is the direction being considered by the administration? She does not want it to be a last minute, hurry up situation.

Mr. Majewski stated that he has been engaged with PFM in trying to find people who are interested in providing the district with Letters of Credit. He cannot move forward until there is an attorney in place who will do a review of the documents to know if we can or cannot move forward with this. Whether this will work out with any of the banks, he does not know. He may know within the next day or two.

Mrs. Leeson asked what are the advantages and disadvantages of going with Letters of Credit, and is this something that the board is interested in doing?

Mr. Majewski replied that is why he needs to have the rest of the pieces in place. There is a plan; he cannot move it forward until he has Bond Counsel in place to review the documents so that we can have discussions with the bank; the bank's Counsel; and the Remarketing Agents; FSA and Dexia to pull it all together.

Much discussion followed on whether this was the direction the board wants to move toward.

Mr. Majewski stated that the discussions held at previous meetings talked about the advantages of Letters of Credit. The rates are fixed. Mr. Majewski explained that the biggest drag on the district is the Resets. That is why we are attacking that first. If we can get that fixed we have "stopped the bleeding" now. This puts the district in a position where they will not have a financial drag on the current year. We can mitigate that problem. We can sit back and take a look at developing market opportunities. Present them to the board, and take a look at what we need to do. We can do it in a manner that will not be so rushed. Right now the urgency is trying to make sure we take care of this problem, and we take care of it as quickly as possible.

Mrs. Cann stated that she agrees with Mr. Majewski. We need someone soon. Did all three names for Bond Counsel come from PFM?

Mr. Majewski responded yes.

Discussion on the three Bond Counsel recommendations was held.

**BOARD FINANCE COMMITTEE MINUTES**  
**OCTOBER 27, 2008**  
**PAGE 5**

Mr. Majewski would like to get the team in place as quickly as possible.

Mrs. Dexter stated she thinks there is a need to finish the discussion in executive session due to another matter related to finance.

She asked when we used Bond Counsel in the past the was the work we paid for limited to that transaction at that time, or might we have the right to go back to the same attorneys and say for the amount of money that we paid will you give us a review of the documents that you have already reviewed and tell us what they mean?

Mr. Majewski replied that we have stretched it to more than that transaction in the past. One person in particular, we went back to twice for amendments.

Mr. McKeon asked what we want to do. Do we go with King, Spry for the short-term?

Mr. Tenaglia stated as he understands it is only to review our current documents to see what our options are. It is very limited in scope. It is not part of a formulation of a strategy going forward. It is merely a legal analysis of the options given the current contracts we have engaged.

Mr. Majewski stated if we have an opportunity right now with a Letter of Credit, or some other option to get away from Dexia, and improve the marketability of our paper, that may be something we want to pursue as quickly as we can.

Mrs. Leeson recommends that anyone with ideas, contact Stan, and the board can make a recommendation within a week or two.

Mrs. Dexter stated that we have already appointed a solicitor firm and one of the contenders in that firm. If we had a chance we have to jump on we would not need any board action.

Dr. Lewis stated we do not want the board to be surprised that we are exploring those options. We would like to bring back and involve PFM with the current solicitor.

Mrs. Leeson asked that the administration keep the board apprised of their thoughts and direction.

Mr. McKeon stated, with regard to the remarketing memo, he would appreciate it if Mr. Majewski and Dr. Lewis would get in touch with either, Mrs. Leeson, Mrs. Dexter, Mr. Tenaglia, or him so that they can participate in the phone call.

**BOARD FINANCE COMMITTEE MINUTES**  
**OCTOBER 27, 2008**  
**PAGE 6**

Mrs. Koch stated she feels the entire board would be interested in the phone calls. Unless it is something that is highly confidential, it should be shared with everyone.

More discussion followed with regard to selecting a Bond Counsel, and how involved the board wants to be with the directions the administration is taking.

Dr. Lewis stated that if an opportunity arises and Mr. Majewski wants to review the documents, he will use King, Spry, for that phase only.

Mrs. Dexter stated that she and Mrs. Leeson have been meeting with Mr. Majewski and Dr. Lewis weekly.

**FIVE-YEAR PROJECTION** – Mr. Majewski stated that it is very early in the process. We have some issues we are trying to wrestle with right now. It appears that we are on the foot step of a recession. Mr. Majewski referred to the times when we have had weaker economic periods, and has used that type of information now.

The assessment growths in certain municipalities are flat. In the townships where we had 4-4.5 percent increase, it is now down to somewhere closer to 1-1.5 percent increase. The City of Bethlehem is one of the brighter spots, but it is not a guarantee either. Revenue, if we have an upturn, it could be a pleasant surprise. He is trying to avoid more negative surprises on the revenue. The numbers he is presenting give a more conservative view.

On the expenditure side we are going to be challenged by the Charter Schools. There will be a large increase in the budget for Charter Schools. The Regional Academy may be adding another 100 students next year. More students are getting Special Education Funding which means instead of paying \$8,000 per year, we must pay \$15,500. Add to this the normal increase in the annual tuition cost. Those three facts combined will cause a large increase in the Charter School budget. That is a certainty.

Another increase will be in the Debt Service. He has added \$5,000,000 to the normal debt service rate. PFM has agreed this is reasonable approach at this point in time.

We are going to have a very challenging year. If we can meet the challenge with next year's budget, he is starting to see that there is definite improvement in the budget process, and a lot less strain on our finances.

One concern is he is using the projected PSERS rates over the next several years. With an economic downturn, will PSERS be able to generate sufficient revenue to meet their actuarial demands.

**BOARD FINANCE COMMITTEE MINUTES  
OCTOBER 27, 2008  
PAGE 7**

It is possible they will need to increase the employer rate more than it is. That could change everything, and that would be a large change. This is what he is looking at, at this time.

Dr. Lewis stated that these projections are also based on no program changes.

Discussion followed regarding reducing the deficit and the amount of millage we could raise.

Mr. Majewski will not be able to give more accurate figures until the middle of December, or early January.

Mrs. Leeson asked when should we continue looking at the five-year up-date.

Mr. Majewski stated March or April is when we have the assessment information, and the amount of funding from the state.

**OPEN FORUM** – Mrs. Follweiler asked if the committee should have more discussion on the budget cuts that have been indicated in the superintendent's memos.

Dr. Lewis replied that the administration will continue to provide updates as these things arise. He stated that the board's feedback is welcome, and the updates could be added to future Finance Committee Meetings if the board so desired.

Mr. McKeon remarked about the Elementary Summer School Program. He indicated that he thought it should have been cut.

Mr. Majewski stated that it was eliminated.

Mr. McKeon stated that he had no idea that it was cut.

Mrs. Leeson asked if we ran an ASPIRE Program this past summer.

She was told that we did.

Mrs. Leeson stated that the board eliminated the summer program that the district funded, but did not eliminate the summer school program that was grant funded. That is where the discrepancy is.

**BOARD FINANCE COMMITTEE MINUTES**  
**OCTOBER 27, 2008**  
**PAGE 8**

She stated that she was shocked at the some of the numbers for the Regional Academic Standards Academy, the Career Academy, SPARK, and the Welcome Classroom. We have been asking for these numbers for a long time. They are so different from what they were on October 17, 2008.

Dr. Lewis replied that the board asked for a breakdown on grants and local effort and everything, not just the operation of the program which in some cases meant buildings.

Mrs. Leeson stated that it is triple what it was a week ago.

Mr. Majewski explained the difference in the figures. This is more comprehensive.

Mrs. Dexter asked for the approximate enrollment for each program.

Mr. Tenaglia referred to the Field Trip Policy. The Liberty Cheerleaders was not included. The policy states that overnight class trips and overnight social events must be approved by the board. The argument last week was that the Liberty function was not a board matter. The request for the Cheerleaders to go to Florida was never approved by the board.

Mrs. Leeson stated the competitive cheerleaders are not a school sanctioned group. They come under an attendance policy not a trip policy.

Discussion followed regarding field trips and whether they have to come to the board for approval.

Mr. McKeon asked if anyone is tracking the number of days individual participants are out. Someone told him that last year some Freedom girls were out over seven weeks.

Dr. Lewis stated that Child Accounting does a very thorough job of charting those extraordinary situations and advises his office, Dr. Donaher, and Mr. Washington, that there is an extended absence. The high school principal would be notified. This happens long before seven weeks.

Mrs. Koch stated that she is looking over the potential program cuts and wonders why Community Service is not included.

Dr. Lewis stated he feels that there will be many discussions on what should and should not be cut. The information regarding the cost of the Community Service Program will be provided at a future meeting.

**BOARD FINANCE COMMITTEE MINUTES  
OCTOBER 27, 2008  
PAGE 9**

Mr. McKeon adjourned the meeting at 9:53 p.m.

Minutes prepared by:  
Confidential Secretary to the Assistant to the Superintendent for Finance and  
Administration.