

**BOARD FINANCE COMMITTEE MEETING MINUTES
MONDAY, MAY 4, 2009**

Members of the Board Finance Committee met on Monday, May 4, 2009, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 7:30 p.m. The following school board members were present: Mr. Rosario Amato, Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Mrs. Charlene Koch, Mrs. Loretta Leeson and Mr. Benjamin Tenaglia. Also in attendance were Dr. Joseph A. Lewis, superintendent of schools; Mr. Thomas Washington, assistant superintendent for human resources; Mrs. Anne Morton, assistant director of business affairs; Mr. Scott Shearer and Mr. Chris Trump of PFM; members of the press and other interested citizens.

COURTESY OF THE FLOOR

None

INVESTMENT OPTIONS FOR BOND REPORT

Mr. Shearer introduced his colleague Chris Trump and had him distribute a hand out to the board. Mr. Shearer gave a quick update on what transpired last Friday, May 1, 2009. That was the settlement of the 2002 transactions. It was a payoff of the swaps. Everything closed successfully on Friday. The refunding of the West Cornwall transaction and the termination of the swap were settled. The Shippensburg Borough Authority refunding and the transfer of those swaps also worked out well. We had a lot of work to do to get that done. Mr. Shearer explained that when the transaction to refund West Cornwall settled on Friday, it included \$11.1 million of new money. After the transaction settled you netted \$10.8 million of receipts to invest. That money is now sitting with M&T Bank as the paying agent with those bonds until we get further direction from the school district as to how the funds will be invested. I provided a hand out that outlines the structure of PFM. I specifically am under the public financial management inc., where I work on debt transactions, budgeting, TRANS and basically anything debt and swap related. When it comes to swap pricing you were introduced to PFM asset management. As far as the investment side that is regulated under PFM asset management. Page four lays out the summary of the bond transaction. The average yield on that issue was about 4.25 percent. Because of the amount of debt that you are issuing this calendar year you do not qualify for the small issuer exception. In today's interest rate environment it does not really matter anyway. If you did qualify for the small issuer exception, it would just mean you would be able to keep interest earnings over the arbitrage yield. Right now you just can't get that type of investment yield. We are in a negative arbitrage environment. Where you are earning less than what you are paying on the debt interest. Based on the draw schedule that was produced by the business office and your engineer, we put together some investment options for you on page four. Page 16 explains what are your investment options with this money. On the left hand side you'll see the traditional investment options. You have money market funds and your

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individual portfolio and on the right hand side you have your stretcher products, which are sometimes called flexible repurchase agreements. For the most part the stretcher products option is not really a viable option in today's market. The yield you are going to get is no better than the traditional investing options. We focused on the three on the left hand side. We can go to your Wachovia, Wells Fargo, TD Bank, Bank of America to look at some type of investment option. They may have a money market fund where you invest the money or money market funds also consist of some of the investment pools within the commonwealth. Three of the main ones are PSDLAF, PLGIT, and INVEST.

PFM Asset management is the investment advisor to PLGIT. PFM Asset Management was appointed by the board of trustees of the PLGIT trust to be their investment advisors. We also advise similar type PLGIT pools around the nation. We have about 15 other pools that our company also manages. I just wanted to make it clear that when I am talking about investment options there is one that PFM Asset management does have a presence in. Those are the options that are out there. On page 17, we look at what are your goals. We focus on safety, liquidity, market risk, and reinvestment risk. The key thing with liquidity that's just to make sure you have some money available to pay your contractors and when bills are due.

Mr. Tenaglia commented that at the time when we were discussing the issuance, we were looking at roughly \$11 million, which was to cover the anticipated additional expense to finish the New Broughal and Liberty as well as the demolition of the old Northeast. It seems from your report of May 1st, (when the bond settled) that we have roughly \$11.1 million.

Mr. Shearer replied that the par amount of the new money that you were going to borrow was \$11.1 million and then after you net out issuance costs you end up \$10.8 million. We backed into, based on the draw schedules we were provided, the construction fund deposit that you would need to carry out those two projects.

Mr. Tenaglia asked how much additional money did we receive from the refunding of the West Cornwall issue over and above the repayment of West Cornwall, the swap terminations and all the issuance costs?

Mr. Shearer replied about \$10.8 million.

Mr. Tenaglia asked what is the \$11.1 million par?

Mr. Shearer responded the way we structured the transaction the series B of 2009 was the new money, series A and AA of 2009 where the restructuring and the refunding of West Cornwall and paying the respective termination. Series B was the 20-year level transaction, par amount \$11.1 million. That's the amount of bond that was issued of new money and you net out the issuance costs and you're down to \$10.8 million.

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Mr. Tenaglia stated that we are then left with \$10.8 million, which should still be pretty close to the \$11 million that was estimated to finish the current construction projects and the demolition.

Mr. Shearer stated that back at one of your April meetings, I took this bar chart on page four and put it in a spreadsheet and showed the two main columns that you needed the money for. It showed the par amount of the bonds and net out the issuance costs, factor in the interest earnings and that would get you to the net amount that you would need to finish those projects.

Mr. Tenaglia stated that on page four, it looks like that by November of 2010 there is something of \$13.8 million. What's the differential?

Mr. Shearer replied that I believe there were funds about \$2 million or \$3 million on hand that were also being used to finish out those projects.

Mr. Tenaglia commented that this is a combination of what is left in the 2007 bond fund plus the proceeds?

Mr. Majewski replied correct. What you are looking at is the starting point at May of 2009. We were projecting running out of cash by June of 2009 so there was some balance that we were starting with in excess of the \$11 million.

Mr. Tenaglia stated that what we are looking at is the vast majority of this \$10.8 million being consumed within one year.

Mr. Shearer responded yes. It's a pretty short draw schedule. This money is being spent fairly quickly, which is why one of the investment choices is to keep a lot of the money fairly liquid.

Mr. Tenaglia stated that starting page 16; I don't see where you have a recommendation on what we should do with this.

Mr. Shearer replied there is another hand out here. Where there is a sample portfolio. It's not a firm recommendation. It is for discussion this evening.

Mrs. Cann asked on page 17 which one of these is PLGIT?

Mr. Shearer responded the second column. Where it says MMF or LGIP.

Mrs. Cann stated that since we do have that short time frame should we keep it pretty liquid? Are you suggesting that this is one of the better options?

Mr. Shearer responded that a lot of similar issuers, in your same situation right now, were recommended a combination. If you look at the top sample portfolio A, under security type, this is where it would be in a PLGIT ARM (arbitrage rebate management). Under

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par amount you'll see \$6.2 million with a yield of point seven. For this sample portfolio we are saying keep about \$6.2 million liquid. That will get you through a couple of months of your withdrawals and basically buying certificates of deposits or CD's.

Mr. Trump stated that they are FDIC insured CD's so they would remain insured. PFM and PLGIT have a system of roughly 300 banks nationwide that are in the system so we can solicit bids for the CD's. The portfolio assumes that the PLGIT ARM pool, which is point seven percent, declines to point four percent over the first six months because of the economy. It's just an assumption, but in the current market most pools are going to decline in the next couple of months.

Mr. Shearer commented that there is a high likelihood that it may go down a half percent. The liquid return will go down even further unfortunately.

Mrs. Leeson commented that you said that currently our money is at M&T. What are we making currently on the money?

Mr. Shearer responded that yes, it is at M&T. I need to double check but I think it's about a quarter of a percent. It's a very small percent. We wanted to just park it there until a decision was made and then we could redirect the money.

Mrs. Leeson stated that she saw gross yield and net yield. Net means net of fees and everything else?

Mr. Trump responded that the PLGIT ARM net yield is 0.7 percent. The gross shows an expense ratio but there is no out of pocket fees that the district would have to pay for any funds invested in the PLGIT ARM pool. The fees that you see quoted there are roughly \$3,200. PFM asset management does charge point zero eight percent roughly on FDIC insured CD's to manage. That would be an out of pocket cost to the district.

Mrs. Leeson commented but that is taken into account in the net yield?

Mr. Trump responded that is correct.

Mr. Tenaglia asked what is the difference between the eight basis points and your footnote to thoughts of nine basis points?

Mr. Trump responded the nine basis points are for treasury and agency securities. Treasury and agency securities would be held in third party custody account at U.S. Bank. The PFM fee is still the eight basis points but then we estimate roughly one basis fee for the custodian fees. The FDIC insured CD's since they are held in the district's name out of an FDIC insured bank there is no custody fee.

Mr. Tenaglia stated couldn't we go to the treasury direct and save that basis point?

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Mr. Trump stated that short-term treasury is extremely low yield in security right now just because investors are seeking safety liquidity. Short-term treasury is relative to the securities we are showing here. We feel they do not offer a whole lot of value.

Mr. Tenaglia asked why pay a one basis point custodial fee when we could go to treasury direct?

Mr. Trump responded it's not an option for the program we offer with PLGIT.

Mr. Shearer commented that this is not set in stone. It is our recommendation to keep some of the money liquid and lock up another smaller portion because of the relatively short draw schedule. One of the unique things with PSDLAF is that it also offers the ARM is included in the management fee. Just because we are in a negative arbitrage environment the district would still need to report if they were ever audited if there was or was not an arbitrage rebate liability to the federal government.

Mrs. Leeson asked Mr. Majewski if there was reason why we could not manage this money in house?

Mr. Majewski replied there is not any reason why we could not manage this money in house. The one thing we could not be able to provide that we would have to pay for the service would be for the arbitrage rebate calculation. We cannot do that. It's probably about \$5,000 to do an arbitrage rebate calculation. We still would need to do that even if we did the investment.

Mr. Shearer stated that is one of the options to go to one of the banks you use right now. Our key criteria are to make sure you keep that money in a separate account. It cannot be co-mingled with a penny of other money. If just makes the arbitrage rebate calculations so much trickier.

Mrs. Leeson asked could we also put the money in CD's?

Mr. Shearer replied sure. You can keep some of the money liquid with Wachovia and buy Wachovia CD's with the remainder of the money as well.

Mr. Majewski stated that looking at those banks would not be an option for us right now because we can only look at approved depositories. To purchase CD's we can only go to those banks that are currently approved by the board. We are restricted on who we can get quotes from for certificates of deposits.

Mr. Shearer commented that the overall intent of this evening was to get a little bit of guidance. We talked about our strategy for keeping some of the money liquid locking the other half up tailored towards when you are going to actually need it and help get a little benefit yield. Unfortunately right now yield is not good as far as what you can earn. No matter what option you choose whether it's through a customer pool like PSDLAF or working with your local bank obviously we'd like to be involved and help you analyze.

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Mr. McKeon asked what are you anticipating hearing from us tonight?

Mr. Shearer responded if you would like to give us some direction as far as going to talk to some of the banks. We can send out RFP's. We can fine-tune this type of example for you once more. We'd like some direction as far as what you are thinking with the overall investment strategy.

Mrs. Cann stated that part of what you do is to come up with the highest rate for CD's as well or is that just for the pool?

Mr. Shearer replied that would be for the individual portfolio as well as the pool. PFM Asset Management goes out to at least three different parties and gets three bids for each security buy or sell to insure upon getting the best price that we can get.

Mrs. Cann asked for CD's as well?

Mr. Shearer replied yes.

Mrs. Cann stated I'm trying to understand why we would want to check with Wachovia and other banks. Aren't you already doing that and coming up with the best bid?

Mr. Shearer responded that one of the differences on what they would offer verses what a bank would offer is that these CD's are FDIC insured. They are backed by the FDIC. Where as if you would put the entire deposit of roughly \$10.8 million with a local bank the fund above the FDIC insurance limit would have to be backed by Act 72. The banks can offer different rates depending on their need for capital. The rate can be a little different.

Mrs. Cann asked would we get the best CD rate through your process?

Mr. Shearer replied that through their system you would get the best FDIC insured CD that we can get.

Mrs. Dexter asked do we need to leave the money at M&T until the regular board meeting?

Dr. Lewis stated that we have not typically waited.

Mr. Majewski commented that we have not typically waited. We have approved depositories and with your direction we can move it into any one of those approved depositories. The only way it would be a problem would be if it were invested into an account that was not approved by the board. Every one that we heard here are approved depositories and we could proceed as long as there was some direction with what to do with the funds.

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Mrs. Dexter stated that she is a little confused with the role of Scott Shearer tonight. I know that we asked PFM to be our financial advisors and now we have Mr. Trump who is selling us services. If we decided that we were going to keep the money in house how do we pay you in order to get us the best rate?

Mr. Shearer responded that would be us in conjunction with Chris Trump and other colleagues not wearing his PLGIT hat but wearing his management hat. It would be for both of us looking at that.

Mrs. Dexter replied that she was still confused.

Mr. McKeon asked if he could ask a question because he was also confused. Is the limit of the portfolio management fees \$3,200?

Mr. Trump responded no, the fee can be higher or lower depending on the amount of securities that are invested in fixed rate, fixed term security, treasuries, agencies, or FDIC insured CD's. If the draw schedule fell behind and the project fell behind and the district purchased additional fixed rate securities by other treasuries or agencies the fees could increase over time.

Dr. Lewis asked if the draw proceeded according to what we estimated to be and if this were the investment, would the fees be limited to \$3,200.

Mr. Shearer responded that is correct. The out of pocket fees for the district would be the eight basis points.

Mr. McKeon asked if that would include the ARM and all management of the PLGIT end.

Mr. Shearer stated that this fee goes to PFM Asset Management. I will charge zero for that. I will overlook things and obviously be involved but Chris and the other colleagues are registered. I will not be charging my hourly fee. What you see on the second page of the hand out is the PFM fees.

Mrs. Leeson stated that any advice you would be giving us is calculated within these \$3,200? I think it would be worthwhile to check with our banks to just see what the rates are.

Mr. Majewski stated that we are required to perform the arbitrage rebate calculation. Has anybody who has not been under investment ever asked your group to perform the arbitrage rebate calculation? If the answer is yes, what fee was charged?

Mr. Trump replied yes. The arbitrage rebate group determines the price. I would say one time calculation is in the range of \$1,500 to \$3,500. That is something that if you are interested in we can contact the arbitrage rebate group specifically for pricing.

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Mr. Shearer stated that they have a nationwide practice right out of Harrisburg with a large presence nationwide. There are only three or four qualified firms that do this. I use the words qualified very strongly.

Mrs. Leeson commented that she understands there is a cost that has to be calculated into this. I think it should be listed if we are looking at comparing apples to apples.

Mr. Majewski stated that we could do the investment in house but he would still need to contract somebody for the arbitrage rebate calculation for approximately \$1,500.

Mrs. Follweiler asked that what we are looking for tonight is direction on \$10 million that is sitting at M&T bank which is basically earning next to nothing? If, we go with this example, then we are going to have a net earning of \$50,000 after the \$3,200 fee?

Mr. Trump responded assuming our assumptions are correct about the draw schedule as well as the reinvestment rates of the pool, which we cannot guarantee.

Mrs. Follweiler stated then what you are looking for tonight is direction on whether to move that \$10 million out of M&T into this type of investment.

Mr. Shearer stated that we definitely want to move it sometime soon. It's a matter of where you want to move it. Do you want to keep it in house and work with Wachovia or Bank of America and independently do the services for arbitrage rebate or do you want to do some form of portfolio. I do recommend getting it out of M&T soon.

Mrs. Follweiler asked how time sensitive is this? Are we talking next Monday? If that were to be the case, then what does that do for our options?

Mr. Shearer replied that next Monday does not really change these options at all.

Mrs. Cann asked if we look at Wachovia or Bank of American would we have the FDIC insurance problem?

Mr. Majewski replied we would have an FDIC insurance problem because it would not be covered. It would be in excess of that. They very likely would set up a pool collateral. Which means we would not know the collateral directly. It would be part of a pool. If for some reason, they ever dissolve or they have some liquidity issues we also would be part of the pool and eventually would get our money. Which is a little different than the FDIC where you have individual standing and you don't have to wait in line until everything settles in order to get your funds. It provides a higher level of security if there was a problem. They are required by law to have our investments covered by federal investments. One of the areas we looked in order to invest was PLGIT or PSDLAF, or some of the others. Depending on what would be the best return we would get. We could structure something. You may see some of those funds invested in PLGIT. That is one of the options we look at now for investing school district funds now. We can structure something, if you wanted me to do so and we can take a look at what rates we

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can invest it. Opening a separate account because as you heard, we cannot co-mingle these funds with any other funds. It must be in it's own account.

Mrs. Cann commented but it would not be FDIC insured?

Mr. Majewski replied it would not be, not unless we bought certificates that were of a size that were covered by the FDIC. We could buy smaller certificates.

Mrs. Cann asked if the limit was not per bank then is it per instrument?

Mr. Majewski replied yes, per instrument. If the direction was to stay within the FDIC limits, then that's how we would purchase the certificates.

Mrs. Cann questioned if we would earn less with smaller denominations?

Mr. Majewski replied no, just more of them.

Mr. Tenaglia asked if he misunderstood bond counsel last week? When he specifically cautioned us about going to pooled collateral.

Mr. Majewski explained that his caution of pooled collateral was what he explained earlier about standing in line. The preference is to have the collateral in the name of the school district.

Mr. Tenaglia asked specified collateral?

Mr. Majewski replied exactly.

Mr. McKeon suggested staying away from that, just because of the banking uncertainty as opposed to the FDIC insured where it is about as liquid as it can get.

Mr. Majewski stated please understand that because of the short term liquidity needs, we cannot have all of it covered by FDIC because we need to be able to maintain an investment pool of several million where we can draw down over the next couple of months. That will require us to have some sort of pooled collateral.

Mr. McKeon asked how does the board want to proceed?

Mrs. Leeson responded that she personally would like a little more information. I appreciate the presentation. I'd like more information and then make a decision perhaps in a week.

Mr. McKeon asked Mr. Majewski if it is possible for him to go out and solicit rates?

Mr. Majewski responded that he could check to see where we are able to invest money at different locations and at what amounts.

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Mrs. Cann asked is RBC one that has an investment advisory group?

Mr. Shearer replied that what PFM Asset Management is to PLGIT, RBC is to PDSLAF.

Mrs. Cann asked Mr. Majewski if he could look at them as well. Would that be difficult to do?

Mr. Majewski stated that it would not be difficult to do. I have already been contacted by a many number of folks about this money.

Mr. McKeon commented that the board would get some preliminary information and come back and give you some direction.

Mr. Majewski asked that since Mr. Shearer is here, could he have the item on the tax revenue anticipation note moved up on the agenda.

Mrs. Dexter commented on the last minute delivery of paper. It does not work for me to have last minute documents. I would ask that you make a better effort to get us the documents ahead of time, even if it means to transmit them on the day of the matter by email. It's not fair to the board members to ask us then to make a decision and give you direction. We want to be cooperative.

TAX REVENUE ANTICIPATION NOTE

Mr. Majewski reported that this is something fairly new to the district last year and has everything to do with our lack of cash resources around this time of year. Last year we had received a tax anticipation note under \$10 million. It was anticipated that our cash would be running out somewhere during the month of July. We were able to repay the tax anticipation note during the month of September. This year has not been a better year. You heard we are projecting potentially approximately an \$8 million deficit. Which means there is more of a cash drain on our system. Which is why I'm talking to you today about the need of a tax anticipation note. I put together a calculation this morning and had it reviewed with Mr. Shearer. It came out that we would be eligible for up to about \$15.8 million. Based upon the deficit that we are taking a look at and the five percent that the law allows us to maintain over and above that for cash flow. What occurs because of our cycle is that we have throughout the majority of our receipts come in the form of real estate tax. Much of them will come during the August through September time frame. Most of our revenue is coming towards the end of August. During the month of July you'll still have some receipts coming in but most of our revenue is coming towards the end of August. There is a strong likelihood that toward the end of June, with our balance of contract payments to our staff, you may see a \$13 million drain in the last two weeks of June. As it stands right now, it is likely that come the month of July we may not have sufficient funds to be able to pay the bills until the new round of tax receipts start coming in. Most heavily the last two weeks of August, therefore I am recommending that we consider going out and doing another tax anticipation note and if the parameters stay the same as last year where we expect to have the tax anticipation

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note paid off by the end of September, that would work fine. By that time we would have sufficient liquidity here to be able to maintain normal operations. My concern is that without the tax anticipation note we would not have sufficient money to continue operations during the month of July and possibly early August.

Mr. McKeon commented last year when this discussion came up there was a discussion of a \$10 million cap. Could you refresh us as to what that cap was and how that may or may not be applied this time around.

Mr. Majewski stated that there is a calculation that is done based upon cash flow, your receipts and revenues. You start off with a beginning balance. The beginning balance for us is going to be our deficit, approximately \$8 million. You would take your lowest point where you would have your largest deficit and that would be your starting point as the amount of money that you could consider getting a tax anticipation note for. In addition to that the law would say that you could throw in for the need of working capital five percent of your total expenditures from the prior year. When Mr. Shearer and I went through that calculation to make sure it was accurate, appropriate, and complied with the law, it worked out to be approximately \$15.8 million. It's a calculated amount based on your cash flow deficit.

Mr. McKeon asked based on the information from last year? The information behind it is slightly different this year.

Mr. Majewski stated that if you had approximately a \$3 million deficit last year and we are looking at an \$8 million deficit this year, the difference between the \$10 million and the \$5 million is really the increase in the deficit.

Mrs. Follweiler asked did we pay off last year's tax anticipation note by September?

Mr. Majewski replied yes, we did.

Mrs. Follweiler stated so we have no reason to be believe it would not be the same this year. What would be the cost to the district?

Mr. Majewski commented that at this point it would be hard to say because we have to wait to see what type of rate we would pay. If we could take a look at about a two and a half percent rate, which is where we were last year. I don't know if that is reasonable or not on roughly \$15 million. We are looking at about \$70,000.

Mrs. Follweiler asked what was the cost last year? We did about \$10 million last year.

Mr. Majewski responded it ended up costing us about \$30,000.

Mrs. Follweiler asked what happens if we don't take the note?

Mr. Majewski replied we won't pay our bills and we won't make our payrolls.

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Mrs. Follweiler asked we don't pay our bills therefore we close.

Mr. Majewski responded yes.

Mr. McKeon asked the payroll impact is greatly reduced in July and August.

Mr. Majewski replied it is. Approximately two thirds of our teaching staff will take all of their pay by the end of June. We still are making payroll to everyone else outside of the professional staff and approximately to one third of the professional staff during that period of time plus we are still making payments on our debt service and on going costs with our cash flow. Our payroll is reduced but it's not the only cost we have over the summer.

Mr. McKeon stated that you would also have a large bump up the last 2 weeks in August as the teaching staff comes back.

Mr. Majewski stated that by the time the teaching staff comes back it is not a concern because you have your first installment that will come in the early part in August that helps to provide some cash. The largest portion of your tax will come the last two weeks of August because that is your discount period. By the end of August you are really in a solid financial position.

Mrs. Cann commented that she agreed with Mr. McKeon that there was something last year with that TRAN because it did not go over \$10 million there was some kind of characteristic to it.

Mr. Majewski replied that option was bank qualified. We had the ability to look at a bank-qualified note last year because we did not have any other issues. We already have this refunding we went through so we are not eligible for bank qualified financing.

Mrs. Cann asked what was the benefit of being bank qualified?

Mr. Shearer replied it is basically a lower rate. For instance a bank qualified TRAN maybe paying one percent and on a non-bank qualified you may be paying one and a half percent. That bank-qualified limit, did get raised for this year and next year due to the stimulus plan. It got raised from \$10 million to \$30 million. It does not matter for Bethlehem because you are still over that. Just like the West Cornwall refunding that we just did they were also considered non bank qualified because of the size. They were over the threshold. This TRAN would also be considered non bank qualified.

Mrs. Cann asked the limit is \$13 million now?

Mr. Shearer replied \$30 million just for this year and next year.

Mrs. Cann stated that ours is for \$15 million.

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Mr. Shearer stated that was the amount you qualify for based on the budget deficit and five percent working capital allowable amount. Bethlehem qualifies for \$15.8 million. That is the amount of the TRAN you can apply for. The federal government determines the interest rate expense that you will pay. They set the bank qualified and the non-bank qualified limitations. Any borrowing you do this year will be non-bank qualified.

Mr. Tenaglia stated it is a cumulative effect it's not merely the 15.8 million for the TRAN issue. It's the cumulative amount of debt we are issued during the calendar year.

Mr. Shearer stated that he thinks when Mr. Majewski said last year that it wasn't an issue; it was because we did not do any other borrowing in 2008.

Mrs. Follweiler commented that last year was the first one we had done in a long time?

Mr. Majewski replied yes.

Mrs. Follweiler asked and now we are doing another? How do we break the trend so that next year we are not looking to do it again?

Mr. Majewski replied that the only way to break the trend is to rebuild the fund balance.

Mr. Tenaglia stated that last year you needed the money by the end of June. I think I heard you say you need this money by the end of May.

Mr. Majewski responded that last year we were looking to run out cash by the end of July. Right now with the additional \$5 million plus the drain coming on it is likely that towards the end of June or early July we will run out of cash.

Mr. Tenaglia asked if it was Mr. Majewski recommendation for the May monthly meeting or the June monthly meeting.

Mr. Majewski responded that what he would like to be able to do with your agreement is to have everything done by the May 18 meeting. We need to go out and get the pricing on the TRAN. You need to work the approval of that very close to when the rates will be coming in because they won't be valid. I'm not sure if we have sufficient time to have everything done by the May 18 meeting.

Mr. Shearer stated that the June 8 meeting might be more suitable.

Mr. Majewski stated even if we had the approval at the June 8 meeting. We would have the cash in time so that we don't have a liquidity issue. I would like, with your blessing to proceed with Scott Shearer in trying to work through a pricing of a TRAN. Once we have the information, we would bring that to you at the special board meeting on June 8 for your approval or your decision.

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Mr. Shearer commented that it may be more advantageous to receive the full \$15.8 million on day one or you can do a draw down line of credit. Where you get a line for \$15.8 million and you may only have cash flow problems for \$8 million, so you would only draw down that amount. There may be some advantages to doing that.

Mr. Majewski stated that based on our calculations there is a cash flow problem that will occur during the summer. The recommendation is that we need to proceed with a TRAN. What we are hoping to get from you tonight is the agreement that we will continue. It takes time to develop the RFP. It takes time to get the pricing but I will not bring that back to you with the pricing and the amount until June 8.

Mr. McKeon polled the board and it was agreed that Mr. Majewski could proceed.

Mr. Shearer added that tomorrow he would be going out to market with the Bethlehem Area Vocation Technical School refunding transaction. It looks like we are above the savings target. I will keep everyone posted. It looks like we should have the green light tomorrow.

Mr. Tenaglia asked if Mr. Shearer would be at the Bethlehem Area Vocational Technical meeting tomorrow night.

Mr. Shearer replied that he would not but he would be able to provide a report.

Mr. McKeon asked if he could send an email out to Mr. Tenaglia, Mrs. Leeson, Mrs. Cann and myself or you could send it to the entire board.

Dr. Lewis asked if he could send it to him as well.

Mr. Shearer stated that he might not have it wrapped up by tomorrow afternoon but that he would report whatever they had.

AUDITOR GENERAL REPORT

Mr. Majewski reported that recently we received the Auditor General who completed their field audit for the 2004-2005 years. They are in a two-year cycle but they are always working behind. If they came in during 2008 to complete the audit, they would be looking at the two years prior to that. There were two findings and one observation. There was one other comment related to a prior finding that we need to have a discussion on and address this evening. One of the finding had to do with the under reporting of social security and retirement wages. It goes back to 2002 and it should sound familiar because it was in the prior audit. The reason why it was on the prior audit as well as this audit is one of the same. When they came in 2006 they were looking at 2002-2003 and 2003-2004 year, we were already finished with the 2004-2005 and 2005-2006 year. When they came in, they went back to the 2002 an online system for reporting these wages. Which was changed from the paper version, which they had. The reason how you under report that is the state will only provide subsidy for non-federal wages. Part of the report requires for you to go through and determine what your wages are. Determine

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what course should be paid by federal grants and you need to back them off. What was occurring back then with the new system is that they were plugging them in as federal wages but it was being deducted twice? It was misunderstood that it was already being reduced. We took our federal wages and we took them out twice. This meant that we were entitled to money back from the state. When they concluded our audit in 2006 the district was owed approximately \$411,000. Now, how one gets that money and that's the one comment they have on there that we have not followed through on it. That's not exactly accurate. We contacted Ben Hanft at the Pennsylvania Department of Education asking when do we re-file, how do we get our money? I was told at the time, that they would not do anything until they get a copy of the auditor general's report. Once PDE gets the auditor general's report then they will go through it, if they owe us money, they will send the money. If we owe them money they will take it from us. That generally takes some time as it is going through the review process. When the auditors were here and they saw that we did not get the money they helped grease the wheels a little. I have already been in contact with the state again with a copy of this report indicating that the 2004-2005, 2005-2006 year has approximately \$425,000 due to the district. I will stay on them again but they won't do anything until they get a copy of the auditor general's report and they do the review. There will be some lag from when they will send us the money and when it's being reported there is money due to us. Please know that we will be getting our \$425,000 for this. It was known in 2006. They would not allow us to do anything to correct the problem at the time because the state auditor's didn't finish their review. Now we have the ability to get in line to get our money now that this is in black and white for those years. Once they came in for 2006, it was reviewed there was a process put in place to make sure we would not have another duplicate deduction so we should not have that as a recurring problem. The second finding has to do with the memorandum of understanding with the police forces. I know Mr. Scott Gilliland has been working diligently trying to gather those from each of the municipalities. There is one municipality that has been very difficult and has yet to respond even through the many requests.

Mr. McKeon asked who is that municipality?

Dr. Lewis replied the municipality is the City of Bethlehem. We have a fine working relationship with them but we have been told it is in the solicitor's hands. It's been there for well over a year. Perhaps Mrs. Leeson knows someone over there. We need a memorandum of understanding. We are being noted here as not having it and we have asked multiple times. All other four boroughs and municipalities have provided it.

Mr. McKeon stated that he was hoping it was somebody else because periodically he has coffee with the Mayor of Freemansburg.

Dr. Lewis commented that Freemansburg was one of the first ones that got back to us.

Mr. Majewski stated that the other item that shows up on the report is not a finding. It is an observation. This is the first time the state was coming through and taking a look at our information technology systems and I have Frank Arbushites here to fill in the

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blanks. What they were looking for in our systems was making recommendations about the safety and control of the information. What they were focused on primarily was the relationship with Pentamation and the school district and their access to our student information system in order to be able to make patches and to make updates. The state felt that there was a different way that they would prefer to see it set up that they thought was more secure. At this point I really need to turn it over to Mr. Frank Arbushites for a better explanation.

Mr. Arbushites stated that we would continue to work with Pentamation to put together a plan. We will make sure we obtain the necessary authorization and signature access for use policy so, that they can come in and access the system. They need to access the system on a regular basis to apply patches and updates. We want them to be aware of our acceptance of this policy. We will make sure they are aware of it and that it is properly signed before they have access. It needs to be on an ongoing basis.

Mr. Majewski commented that one of the other discussions that they had here had to do with the changing of passwords. I don't know of any large organization that would change passwords every thirty days. It is a very difficult process but that is something that they are taking a look at. How to accomplish changing passwords more frequently than we are right now without being too disruptive with the system was not something that he was able to respond to. It is going to be time consuming and requires a bit of investigation before we would start implementing that. When the information on how we are going to implement that type of observation or improvement is known we will need to report it back to you.

Mr. McKeon commented that when he worked at AT&T they had moved over to the changing of the passwords every 30 days. It got to the point where we were righting down new passwords each month because the system would not allow you to re-use a previous password. I think AT&T was at about 80,000 people at that time.

Mr. Majewski stated that it is something that needs to be done. It is something that we recognize and it's going to be looked at very carefully. We'll report back once there is a system in place that will not be totally disruptive to the operation.

Mrs. Dexter stated that she recalls being at the auditor generals in 2006 when we learned that we were going to get the \$411,000 back payment. At that time the auditors told us that the problem would happen again. This is exactly what did happen but we knew that it would happen.

Mr. Majewski commented that it is exactly what was told to us at the time. It's not any new information or is it different. I believe the dollar amount is very likely the same.

Mrs. Dexter stated that at that meeting they also said we would get cited again. By the time it came to our attention there was nothing that could be done about it.

Mr. Majewski stated other than change from that point forward.

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Mrs. Koch commented is this something that is happening to other school districts as well?

Mr. Majewski responded that he did not know how many this would have occurred to. It is likely something that is not just unique to us. With any new system especially when we go online, there are certain assumptions that are made. You try to gather information as to what is expected and it is not until you get feedback like this do you realize that what you were doing was wrong and you needed to change it. We've learned that what we were doing was incorrect and we have changed it.

Mrs. Dexter stated that she asked that question at the 2006 meeting and they told us it was one of the more common errors. Ours stood out because of the size of the dollars but that correlated with the size of our district.

Dr. Lewis commented that this audit canvas August 18, 2006 through October 17, 2006. Over the years that I have been involved with this, it is a very clean audit. We were fully aware of finding number one and finding number two was not our fault and finding number three was a technology issue about protecting our data, which has not been infiltrated. I would like to recognize Mr. Stanley Majewski and Mr. Frank Arbushites. Our systems are operating in compliance with the law, regulations, contracts, grants, and everything else. It's a pretty clean audit.

Mr. McKeon asked Mr. Majewski if there is a discrepancy in the future. It won't be at this significant level unless they change the program again.

Mr. Majewski stated that it is his hope that there will not be any discrepancy in the future.

CAPITAL RESERVE UPDATE

Mr. Majewski asked if there were any questions.

Mr. Tenaglia asked that he thought they approved something under \$800,000 of expenditures out of the capital reserve.

Mr. Majewski replied you are correct. Those were for summer projects. They would be going out for bids. As it stands right now those monies have not been extended.

Mr. Tenaglia asked if we could have a footnote on the report indicating that.

Mr. Majewski replied that what we will do is include an encumbrance for the amount that is known. If we do not have an actual bid in, we will include a footnote with the amount that was approved by the board for each of those projects.

Mr. Tenaglia asked so we have roughly \$500,000.

Mr. Majewski replied that is correct.

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Mr. McKeon stated that on the flip side there is the balance on the 2007A bond fund. That has to do with the reimbursement back to the general fund.

Mr. Majewski stated that as those funds are being drawn down. They are being pulled down out of the investment that is specifically designed or designated for capital funds. As we go through and take a look at the draw for that month. At that time we will then move money bond fund to the general operating fund.

Mr. Tenaglia commented that he and Dr. Lewis had a discussion regarding the minutes from the prior meeting. Dr. Lewis would you like to make a comment on that?

Dr. Lewis commented that he wanted to thank Mr. Tenaglia for coming to him with these questions and Mr. Majewski for resolving them quickly. There were four questions. In the capital reserve dollars shown on the report, where are they shown in terms of our beginning cash and investment balance? We use a multiple array of investment accounts. Those monies are shown and that balance is correct. The misunderstanding was that there was an additional \$1.4 million and there is not. What you see there is what is reported out. The other issue was the M&T investment group 2007A bond fund. The question was relative to a massive decline in interest from a three point nine to point four six and that was a decimal place. It was a three point nine to a three point four six. The third matter was relative to the letter of credit extension on the bond fund. If, we have expended eighty to ninety percent of our dollars on a project, why do we still need a letter of credit extension on that bond fund? That is purely driven by the developer's agreement from the City of Bethlehem. It requires a letter of credit until that project is closed out. It is my understanding that in the past the city may have burned on a building going up and not being completed, not being occupied and therefore no guarantees were in place to ready it for occupancy. It is a pretty standard practice in the city. It's not a standard practice in the other municipalities we construct in but we don't have an option. It is in the developer's agreement. The fourth question had to do with projections on EIT. That is the revenue page you received. Were those projections somewhat generous to the point of where we are in the last quarter of EIT? As Mr. Majewski explained that is the largest jump. The April 15 date, we tend to get our largest reporting and he has adjusted his projections downward about \$100,000.

Mr. Majewski added that with the developer's agreement, even when the project is complete there is a one-year maintenance period. Over quite a number of projects that I have worked with the legal staff with the City of Bethlehem and they'll reduce the size of the letter of credit but we are required to maintain a smaller amount during the maintenance period after one-year. The maintenance period means your project is completed, but let's say there is landscaping that's there. They are going to come out and do an inspection. We are required to make sure we are replacing dead shrubs or any issues that come up. That's why even beyond the completion of the project they still require a maintenance period.

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Dr. Lewis clarified that the minutes were correct in terms of what transpired. The issue was over whether or not the response was accurate in terms of where those dollars were. I think we have clarified that and we will bring that back for approval.

FISCAL YEAR UPDATE

Mr. Majewski reported that there was an increase in the year in projection on revenues. Collections have ended with real estate taxes. We stopped collecting as of the end of December as we reconcile the monies that have come in they will get distributed. There are no additional real estate taxes that we anticipated here but it is about \$200,000 higher than the projection from last month. I'd like to explain the methodology on the earned income tax. The way the schedule is set up you will see where we are as of the end of April. You will see where we were as of April last year. Where we are at the end of the year. We'll take a percentage of where we are as of the end of April this year and compare that to where we were in April last year and where we ended at the end of the year last year. Many times these revenues in particular follow very similar cyclical patterns. You can extrapolate the differences based on how we were last year compared to where you were at the end of the year. That is how the earned income tax number is generated, real estate transfer tax and mercantile tax are generally similar. The one thing that I modified a bit is the delinquent real estate tax. I brought that down several hundred thousand because there appears to be earlier efforts on the counties this year, especially Northampton County, to go after some of the delinquent taxes. If I did that extrapolation without factoring in that they may have started earlier, I would have overstated the revenue so, I pulled them back about \$400,000 from that type of formula. I did not want to overstate those revenues because I do believe that we got some monies in earlier and I will not see them later in the year. The others are fund balance. There are two things I noticed when I went through. The problem sometimes is when they have a meeting this close to the end of the month. When you take a look at my projections for the employee benefits there is a typographical error there where instead of being \$800,000 it says \$200,000. The on reserve fund balance amount that I am showing should be in a deficit by \$600,000 more than what is stated here. We will make sure that by the monthly regular board meeting you have the corrected reports and also correct the employee benefits portion of it. Right now you are looking at a cumulative deficit fund balance of \$7.182 million, it should be \$7.782 million.

FOOD SERVICE RFP UPDATE

No less than every five years the USDA requires all school districts who have food service management groups to circulate a request for proposal. They very carefully monitor how that proposal is constructed before you are able to circulate it. You need to show them your entire proposal and then they will either approve it or ask for changes. We went through that process and circulated our RFP. We sent out the proposals to five of the companies that were on the statewide list. Three of those companies showed up at the mandatory pre-proposal meeting. It included a walk thru of our facility. When the time came for receipt of the proposal we had received proposals from one organization. That proposal came from Sodexo. I was somewhat concerned about the reaction of PDE and USDA because that is rare and I have never experienced that before. What I have been told is that the experience we had is not unusual. I spoke to a lady there and her

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name was Yvonne Brown. Who said that what she is observing is people are reporting in. I still need to work through and show the proposal through USDA. Many of the companies are not looking to take on new clients and expand. They are just looking to protect the businesses they have. I will tell you that in past years this has been one of the most interesting processes usually because the companies in this business are very aggressive. I provided you with some information from the proposal from Sodexo but there is one piece that was unknown and that was the cost. The reason the cost was unknown was because when you take a look at the fees that were being charged this year they were net vendor allowances because up through this year the USDA will continue to allow food service management companies to get the vendor allowances and they use that to reduce their fees. With the new contract, that won't be allowed. I went back and took a look at a management fee that went from 3.19 percent to nine percent. I almost fell off my chair. I needed to gather some additional information in order to be able to better understand what was happening in the impact of the vendor allowances. When you take a look at the cost, this would be the combined cost of the management administrative fees this year. The total fee would have been about \$172,185. That is what we are anticipating with a management fee of 3.19 cents and an administration fee of 5.1 cents. With the new proposal the management fee is nine cents and the administration fee is fourteen cents. We went from about eight point two cents to twenty-three cents and that seemed like a huge jump. I was able to get information on the vendor allowances. The vendor allowances are going to be approximately \$342,000 that will not be going to Sodexo that would be coming directly to the school district. When we take a look at the net. Our net cost this year was \$172,000 projected out for next year with these fee structures is \$179,000 or a four percent increase. Increase is going to stay for the five-year period. I believe that is reasonable. Their guarantee has increased. If they do not meet their numbers they will make us whole up to their guaranteed surplus. The proposal that we have needs to be reviewed as we are right now with you. I need to send it through the USDA for their review and we also need to make sure that it gets on the agenda for your formal action. Does anyone have any questions at this point on the RFP process?

Mrs. Follweiler stated that as she understood it having just one bid is acceptable?

Mr. Majewski replied that he was told it would be acceptable. If the cost was a significant increase I was told that they might have instructed us to flow proposals once again.

Mrs. Follweiler asked are we required to look at bringing it back in house.

Mr. Majewski replied we are not.

Mrs. Follweiler asked do we have an idea of what that cost would be.

Mr. Majewski replied we had in-house for a long time and approximately 10 years ago the decision was made to go with a contract. You can hire an individual to run your operation. However, to have the resources, the buying power and volume that you have

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with a contractor, it goes beyond just the fee. It's what you are paying your supervisor for verses what you are paying in a management fee and the fees to an organization. We were buying food for the Bethlehem Area School District and part of the RFP is that the contractor is to provide us with the food. They are buying for many, many organizations and getting larger negotiated discounts then we could get. In addition to that, the marketing efforts that they have in some of the menu planning verses us having just one individual. That was part of why we were losing participation. We were serving very institutional menus. The children were responding by not buying them. What has happened since we've gone with contracted is that we now have a scattergram system. We have many options. We have menus that despite the fairly rigid USDA requirements for monitoring, our participation numbers are growing and continue to grow. Even with our enrollment right now it appears to have leveled off. We've seen our participation numbers grow. The point of sales systems that has been put in place has been extraordinarily successful. We had gotten preferred pricing as a result of having Sodexo with us who had a contract with these folks so we got discounts with those individuals. We can go in house but for me to do a cost comparism would be very difficult because I don't know what those costs would be. I'd have to negotiate with all those people in a very short period of time and still go through the hiring process before July 1. If you were inclined to move in that direction I would probably need a good year in advance notice so I can begin piecing that together. Right now it is not a viable option.

Mrs. Follweiler stated that she understood. She said she was thinking more in the lines of the companies that are not very eager to try to move on to new business. If I am looking at it from the big umbrella I might start to think that the companies all got together and said you take this district and I'll take this district. That would be if I was the person looking at the proposal on the big umbrella of watching that cost increase and maintaining that there is no monopoly going on.

Mr. Majewski responded that the only way he could respond to that is that this group is very aggressive and they don't give anything up to anybody. I think part of the problem is that they don't want to hire new individuals and take on the tension, the responsibilities of training them, providing benefits during a time where they don't know if there is going to be an increase in the size of their business or a reduction. They'll be stuck with the personnel costs.

Mrs. Leeson commented that she would like to go through some of the numbers with Mr. Majewski. A lunch costs \$2.20 at the middle and high school. With what we get from our income from lunch, what does it costs us, above and beyond what we collect, to have a lunch program?

Mr. Majewski replied we probably more fully cost our operation than any other school district in the state. What we do with our food service operation is we will have custodial costs assigned to them. We will make sure they get charged for their utilities. We tie any costs that are associated with that operation is charged to that area.

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Mrs. Leeson commented that she saw that Sodexo was guaranteeing the district \$484,446. Is that profit?

Mr. Majewski replied yes

Mrs. Leeson stated that it is not just self-sustaining? We are guaranteed a profit of \$484,446 a year?

Mr. Majewski stated that this is one of the things he was very pleased about because it's about \$100,000 higher than what they were saying they were going to get for us in the past.

Mr. McKeon asked if there was any further discussion.

Mr. Majewski stated that he would have an agenda item for the approval of Sodexo for the food service management agreement. The other thing that I would ask of you is if you could be so kind to give me your information and sign it. I need to send it to the state.

TAX COLLECTION COMMITTEE APPOINTMENT (ACT 32)

Mr. Majewski stated that Act 32 is primarily going to affect earned income tax collection. It could affect local services tax. It not only affects school districts it affects municipalities. Act 32 is going to be significantly reducing the number of tax collectors for these taxes in the Commonwealth of Pennsylvania. It does not have any authorization for real estate taxes however, if everybody within a tax collection district agreed, it could be incorporated. There was no requirement also there was no legal authority to include real estate taxes. Act 32 creates for us a tax collection district that will be called Northampton. You have a listing of all participants including the municipalities. Even though we span through two counties, Northampton and Lehigh County. Since the largest portion of our district is Northampton County, all of the Bethlehem Area School District will be part of the Northampton Tax Collection District. Initially the Tax Collection District will be called together and organized by Northampton County themselves and the County Executive. The reason why this is done is because there are no by laws, no appointees, there's no officers, there is no one else to get it started so the state has said you the county will be opening up the Tax Collecting District until they establish themselves. Once the Tax Collecting District establishes their own by laws, establishes their own officers, the county has no need to continue participating in the Tax Collection District. Their role at that point has ended. What we need to do is to take a look at appointing as representative to the Tax Collection Committee within the Tax Collection District. When you see TCD that's the entire district but the Tax Collection Committee is who makes the decisions about what happened within that Tax Collection District. We have one representative with everyone else. You also need to think about who your alternates are going to be. The Department of Community and Economic Development is the one who is putting this together and sending out information. If you wanted to go online and take a look at information and see what is happening with Act 32. I encourage you to look at the DCED website. It's very useful information. What you need to do

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prior to July is make the appointment of your representative and their alternates. You need to discuss whom you're going to be nominating and then we will take formal action to make that appointment. That information then will be forwarded to the county so that when they are ready to call their first meeting they will have your representative.

Mrs. Leeson asked is this an appointed position?

Mr. Majewski replied it is an appointed position from the board.

Mrs. Leeson asked must it be a board member?

Mr. Majewski replied that it does not have to be a board member. It is anyone you choose as your representative.

Mr. Majewski stated that the first meeting would be held in the fall. The committee's job at that point will be the by-laws. The officers will need to be set-up. Most importantly, you need to prepare a request for proposal. That is what is going to be needed in order to have the company or bureau selected who will be representing the Northampton tax collection district. That does not need to be in place until 2012. For now, I just wanted to make you aware. You need to start thinking who the appointee will be and before July take action to have that person and their alternates appointed. I'll take your direction as soon as you have some names. I'll create the resolution or have the solicitors do so. I think I provided samples of what we had from some of the legal folks who are advising us right now.

Mr. McKeon asked could anyone of the members of the Tax Study Commission be able to serve in that capacity?

Mrs. Leeson asked if we could have a little more information. How closely is this tied to board function? Is it better to have a board member?

Dr. Lewis responded at minimum a board member or an administrator. You need to have someone who is familiar with your operation as well as tax collection and the needs of the district in order to fairly represent the school district.

Mrs. Leeson stated I know we have highly qualified individuals in the community. I wonder what other districts are going to be doing for this committee as well.

Mr. Majewski replied I know this is something you are going to need to consider. That's why I brought it to your attention right now because you need to start thinking about it now, 2 months before a decision needs to be made.

**NORTHAMPTON SCHOL DISTRICT EXTENSION OF LEASE OF OLD
NORTHEAST MIDDLE SCHOOL**

Mr. Majewski stated that he believed everyone was already aware of the extension he just wanted to make sure the board had the documentation.

Agenda Items for May 18, 2009, Regular Board Meeting

B. Tentative Adoption of Budget

Mr. McKeon asked Mr. Majewski if he could explain it a little to him.

Mr., Majewski stated that the action that was taken back in February was the preliminary proposed adoption as required under Act 1. There is a period of time for advertising that needs to take place before you finally adopt a budget. There needs to be the ability to be able to advertise that you are going to do that for the public to be able to see that document. This starts the clock running. Once you have tentative adoption, I will advertise the amount, what has been approved and what is going to be coming forward. It is a requirement under Act 1.

Mr. McKeon commented it's not a locked down number yet?

Mr. Majewski replied nothing is locked down until you finally adopt. Even between tentative adoption and final adoption there is information that may come from the state on various revenue sources, state's budget, or expenditures that come. It does not lock you into anything. It just sets the wheels in motion for advertising.

Mr. McKeon asked if this was the thirty-day notice you need to post before it is approved?

Mrs. Leeson stated that she had a couple of questions on the budget. She also said she knew they had a budget hearing on Wednesday but she thought she'd bring some of the questions now. Thank you for providing a number of answers to our questions but one of them was for the Welcome Classrooms. It says we were looking for information again. We were not looking for information again. What we were looking for is if there were grants for the Welcome Classroom then we could move that cost.

Dr. Lewis replied that there is no dollar amount remaining. That has all been taken out.

Mr. Majewski responded that there is no general operating fund money for Welcome Classes at all.

Mrs. Leeson stated that she understood that but when she looks at the budget adjustments. It is scratched off but it is not put into the deductions.

Mr. Majewski replied that it is not put into the deductions because it's not something that is in the general operating fund.

Dr. Lewis stated that those were the remaining sections that had been removed from the consolidation.

Mr. Majewski stated that we could include it, if you want to track it in that manner.

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Dr. Lewis stated that it is non-existent.

Mrs. Leeson stated let's start back at square one. We had a budget and then we got these sheets that showed us what we could take out of the budget. Down under the not recommended area was the Welcome Classroom and a figure. We have now determined that there is no cost to the Welcome Classroom. Is that figure coming out of the original budget and now we are going to have zero in the budget or we had zero in the budget before and then we had a number here duplicating it?

Mr. Majewski stated that the Welcome Class was never included in the original budget.

Mrs. Leeson stated that she understood that the Welcome Classroom was not costing us anything next year.

Mr. Majewski stated that he was looking back to Mr. Washington to verify that.

Mrs. Leeson asked if in the original budget that they received were those amounts there?

Mr. Washington replied yes.

Mr. Majewski commented that if they were in the original and they're not at any cost now we have the ability to be able to take them out so they should be showing up there as a deduction.

Mrs. Leeson stated exactly. Take a look at it for Wednesday.

Dr. Lewis stated let us take a look at that because I'm not sure we are on the same page here. We'll talk about it tomorrow morning.

Mrs. Leeson stated take a look at it for Wednesday, but that was my question. Secondly, there was a question about driver's end. We continue to get these numbers and we are not showing our net cost. We need to see our net cost for the driver's education program. Parents are paying \$50.00 and the state pays us too.

Mr. Majewski stated that the state pays \$30.00 for a public school student and \$35.00 for a non-public school student the following year.

Mrs. Leeson stated that our board needs to see the net per student.

Mr. Majewski stated that in taking a look at the cost that is reflected there. That is net of the fees.

Dr. Lewis stated that what you are seeing in the deductions is what the district pays to offer the service. It's net of the \$50.00 driver education fee.

Mrs. Leeson asked is it net of the \$30.00 coming from the state?

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Mr. Majewski responded no because the \$30.00 coming from the state is on the revenue side.

Mrs. Leeson stated that when you are giving us the numbers here. We are not showing revenue.

Mr. Majewski stated that when he is giving those numbers that is the reduction that is being taken into consideration if we eliminate driver's education.

Mrs. Leeson commented that she understood that but when we are doing an analysis she would like to know what the cost is per student, net.

Mr. Majewski stated that it would not have a budget impact but you still want to be able to see the net.

Mrs. Leeson asked what does it cost us per student.

Mr. Majewski replied that the Intermediate Unit is charging us \$255.00 per student. The student is paying a \$50.00 fee to us. The net cost of that is \$205.00. If we are getting \$30.00 from the state then you are down to \$175.00.

Dr. Lewis stated that we should also note the number of Bethlehem Area School District students receiving the service and the number of non-public students receiving the service as well. Dr. Donaher did that analysis.

Mr. Majewski stated that non-publics would cost us \$170.00.

Mrs. Leeson stated that there is only one driver education teacher at Bethlehem Catholic. We've got three teachers?

Dr. Lewis explained that the Intermediate Unit does the on the road for Bethlehem Catholic and for us. We both have one classroom teacher. Their ability to perhaps coax more periods out of their teacher is not restricted by the number of sections we can offer. Whether they are offering more or less, I'm not certain.

Mrs. Leeson stated I am talking about on the road only.

Mr. Majewski clarified that the Intermediate Unit has one person assigned to the non-publics and they have assigned more than one person to both of our high schools.

Mrs. Leeson responded exactly. Why are we not getting more students certified? I understand some students want to do it and can't.

Mr. Majewski stated that he believes there are four folks who are assigned to the public portion of on the road training by the Intermediate Unit.

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Mrs. Follweiler asked how many students are eligible for driver's education? I think what I have here is how many are signed up in the classroom. Students that are eligible are sixteen year olds in the school district. It's elective to take driver's education and there are students who can't get in.

Dr. Lewis responded that you can theoretically take the graduating class of each year and call that your eligible cohort. In the junior year, roughly 1,000 students might be eligible.

Mrs. Follweiler stated that out 1,000 students that are eligible there are 174 taking the on the road.

Dr. Lewis commented that every that cohort could elect to take the theory and they choose not to.

Mrs. Follweiler asked do they choose not to or are they're not enough slots. Is there a contingency out there of students who want to take classroom driver education and cannot get in?

Dr. Lewis stated that he is not suggesting that there isn't.

Mr. Majewski stated that when you take a look at the number of students who have taken the theory, about nine hundred students between Freedom and Liberty. Only a fraction of them are taking the on the road.

Mrs. Follweiler stated that it says 428 students.

Mr. Majewski asked are you looking at "on the road" or the classroom.

Mrs. Follweiler responded that she was looking at the classroom.

Mrs. Leeson stated that years ago we had our own driver's education teacher and at that time all sophomores took the classroom theory. It was part of their health classes. As juniors and seniors they would sign up for the on the road. When we learned that three of the four teachers were retiring that same year, a decision was made to do all on the road for one year and no theory. We ended up getting backed up because now we had the sophomores and the juniors who did not have the theory. We converted and made this an elective course, which some of the students are able to get and some are not. My understanding is that it is an overcrowded elective. It is an over subscribed elective. We could have more sections than we do. You must get that first before you go to the on the road. Many of our students would like to get on the road but they are not getting on. I think we have a problem with our system and it's not quite fair to look at the numbers without understanding the problems in the system.

Mrs. Koch asked about the charter schools and the cyber schools taking part in this.

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Mr. Majewski replied no. They are independent public schools. We are not responsible to provide that for them.

Mrs. Koch stated that she thought they were allowed to take part.

Mr. Majewski replied they are allowed to take part in extra curricular activities that we provide and they do not. This is not considered an extra-curricular activity.

C. School Lunch Prices for 2009-2010

Mr. Majewski stated that he is seeking support in increasing lunches by five cents. To frame it out, five cents will pull in about \$20,000. It does not bring in much. We try to keep the cost of the increase down significantly. Because we have a high number of free and reduced priced lunches we get significant monies in the way of federal and state funding. If you take a look at it, staff are getting increases at three percent or more, the cost of food is going up, but what helps offset some of those costs are the donated commodities. That is where menu planning and the value of having a good partner who can create those and use those donated commodities are very important. Those donated commodities come at no cost to the school district. If the United States government is providing things that we can work with and put into our menus, it does help keep our costs down. Only once did we have to increase it more than five cents. As long as the federal government keeps increasing their reimbursement to us, we can keep our increases down to a minimum.

Dr. Lewis stated that comparatively speaking, we are relatively low with our prices, even with this increase. Two of my colleagues that have self run programs; their students are paying significantly more.

D. Mileage Reimbursement

Mr. Majewski stated that mileage reimbursement is an annual thing that we are required to have by our teacher's contract. The Internal Revenue Service rate has gone down this year from .585 to .55 cents. We will put on the agenda an action for you to approve the payment of the current Internal Revenue Service rate effective September 1, 2009.

Mrs. Follweiler asked if we only do that yearly?

Mr. Majewski replied that we do it yearly. Contractually we are only required to do it yearly. If a contract says September 1 we set it for September 1.

Mr. McKeon asked does it normally change once a year?

Mr. Majewski responded normally. It was escalating rather high a year or two ago. They did make a mid year adjustment.

E. Colonial Intermediate Unit 20 Election

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Mr. Majewski commented that on the agenda there is a ballot for the Colonial Intermediate Unit 20 board elections. We have no one there from Bethlehem you are still required to endorse the candidates. If you could when you get your ballot, complete it and return it back to me.

F. Authorization to Accept Offer on Property Q7 6 6 0204C; Creek Road, City of Bethlehem – Northampton County Repository Sale

Mr. Majewski stated that most of these are one hundred dollars. I was rather pleased with this one.

Mr. McKeon asked if anyone had any objection to these items going before the board for approval on May 18?

No one responded

COURTESY OF THE FLOOR

None

OPEN FORUM

Mrs. Follweiler stated that Mr. Majewski answered so many questions for us tonight but there was one question that was not answered and that was the money for the scholastic scrimmage.

Mr. Majewski responded that we verified that there has not been any money that has come in recently in the last couple of months from scholastic scrimmage. The last I saw any money from scholastic scrimmage was the summer of 2008.

Dr. Lewis added that it was the last he remembered too.

Mrs. Dexter stated that she was informed that if we don't meet the Channel 39 contribution that scholastic scrimmage teams would not be able to participate. What do we know about this? Is this correct?

Dr. Lewis replied that he would have to research that. We will get you an answer to that.

Mrs. Dexter asked what other implications there were for that contribution? Some parents have approached the board regarding the reinstatement of middle school soccer. Do you know what that costs our district?

Dr. Donaher responded the co-ed soccer program at the middle schools is approximately \$20,000 through \$21,000. That includes the coach's salary plus transportation.

Mrs. Dexter asked if there were any other sports that have been affected by the budget cuts.

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Dr. Donaher responded that we've cut supplies and uniforms and things like that. The only two sports that we were looking was the rifle program, and reduce that to a club level and eliminate that from the athletic budget and also eliminate middle school soccer.

Mrs. Dexter stated that on Wednesday, she would be asking whether or not the use of stimulus money might help fund something else in the budget so that we may move some GOB money to the reinstatement of soccer. I don't know what the current status of the stimulus money or the regulations pertaining to the same would be. I'm interested in continuing to support the soccer, if we can do it.

Mrs. Cann asked how much of that is transportation? If it would be easier to get them back in, if they have their own transportation.

Dr. Donaher responded that we already do double up with a lot of the middle schools, especially at Broughal and Northeast because of their lack of fields. For practices, they need to be transported everyday not just for the games.

Mr. McKeon asked if we could make an inquiry of the coaches to see how many of those children are playing club soccer in addition to middle school soccer.

Dr. Donaher responded that he could ask the coaches.

Mr. McKeon stated that he understood that they don't cut. I know there is always that conflict of how do you play co-ed, with the mix of male and female on the field.

Dr. Donaher stated that every school has about 30-32 people on a team. It services about 120-125 students.

Mr. McKeon stated that his concern was over here at Broughal. Those students may not have the opportunity to play club soccer, as opposed to the other middle schools. The economics are different. Those students are probably playing the sport as soon as they get done at 5:00 p.m.; they're off playing somewhere else.

Mrs. Leeson asked if we should start having some discussion with the board on the stimulus money? I know some of it is so restricted that it can only be spent in one direction but we should have some discussion on how we are going to spend stimulus money. I spoke with Dr. Lewis about a personal thought on looking at Advanced Placement (AP) programming because we would be able to train and get the books and facilities. It's a one-time expense and from then on out we would be looking at increasing our number of Advanced Placement (AP) programs. I understand that stimulus money can be used for that.

Dr. Lewis commented that the only flexibility we truly have is with the State Fiscal Stimulization Funds and you have chosen to use that to make sure your budget is in line. There are no additional dollars there. There are some additional dollars in Title I but

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those are very limited in their scope and remember we have the exception in Title I to use about \$1 million with the Pre-Kindergarten program. There is a little bit of room but there are also some very strict requirements relative to offsets. In other words, to save a sports program, you got to be cautious that you don't end up in dialogue about that because what you are doing is shifting and then you would be regarded as funding a soccer program. We will have some additional monies that we are looking at with the new 720 because that is a multi year piece, to look at some Advanced Placement (AP) training. Mrs. Katona and I talked about that. We don't know how that will fit in to that.

Mrs. Katona stated that it would depend when we get the money. What we have found out in the last couple of years, whether it be with Project 720 or PA-PACT, we are getting the money later into the Fall. Maybe we can go back into August or something. If we could go back to July 1 that's especially critical with the Advanced Placement (AP) training because so much of it takes place in July. July with some of our grant monies becomes somewhat of a dead zone. Mrs. Cintron is not sure how far back we are going to be able to take the money. In the event that she would advise that we shouldn't do that for this year, then we could write it into next year's grant. We do have to be careful because of the timing of the training.

Dr. Lewis commented that we did have a conversation that we could put that into next year's grant. I don't want to commit as to when trainings would take place but that's another opportunity to look at that.

Mrs. Leeson asked why don't we use the stimulus money for the training and the Project 720 money for the equipment.

Mrs. Katona responded that we don't have access to the stimulus money for that purpose.

Mrs. Leeson asked have we spent all of our Project 720 money for this year?

Dr. Lewis replied that we are on target to. We have about \$11,000 left that has to be spent on the categories for which it was budgeted. We just had that review meeting last week.

Mrs. Leeson asked for clarification purposes if she could have a one-page document as to where our stimulus money was going.

Mr. Majewski stated that he would check with Iris Cintron because the application is due by May 15, 2009. She is gathering information right now. The State Fiscal Stimulization money is being treated as subsidy. That portion of it is not going to have anything separately identified. The Title II D will be the technology related portion. The IDEA funds are going to be specifically for special education. Where we have some ability to be able to work on the application with the Title I component. Title I cannot be used at the high school level. We do not have any Title I identified high schools. We'll gather some of the information we have right now. I believe the application deadline is quickly approaching so we need to make some decisions.

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Mrs. Leeson asked where is the money for Advanced Placement (AP) programming?

Mr. Majewski responded that when they were talking about the State Fiscal Stimulization Funds; they were saying that they could be used for any type of use authorized under ESEA and that is one of those that could be. Anything authorized under the ESEA would be eligible to use from the stimulus funds.

Dr. Lewis stated that if we were to do that it would be in addition to your current budget. You have elected to use those dollars to reduce the GOB significantly so that we can rebuild the fund balance partially through what is in proposed tentative budget that you will be examining on Wednesday night. Please be aware there is no extra money hanging out there with the exception of Title I. We'll put it together for you and give you a look at it.

The meeting adjourned at 9:55 p.m.

Minutes prepared by: _____

Arlene Vargas

Confidential Secretary to Stanley J. Majewski, Jr., Assistant to the Superintendent for Finance and Administration