

**BOARD FINANCE COMMITTEE MEETING MINUTES
MONDAY, JUNE 8, 2009**

Members of the Board Finance Committee met on Monday, June 8, 2009, in the Dining Room of the Education Center, at 1516 Sycamore Street, Bethlehem, PA. Mr. McKeon, Chairperson, called the meeting to order at 8:39 p.m. The following school board members were present: Mrs. Michele Cann, Mrs. Judith Dexter, Mrs. Irene Follweiler, Dr. Craig Haytmanek, Mrs. Charlene Koch, Mrs. Loretta Leeson 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; Mrs. Anne Morton, assistant director of business affairs; Donald F. Spry, Solicitor; Mr. Scott Shearer of PFM; Arif Fazil and Jim Hanna of D'Huy Engineering; members of the press and other interested citizens.

COURTESY OF THE FLOOR

Stephen Antalics 737 Ridge Street Bethlehem, PA said that there have been changes to the Martin Towers ownership. He reported that Mr. Harrick is the anonymous person behind the SWB Corporation mentioned in the TIF request. Mr. Antalics checked with Lehigh County and they told him that bills are no longer sent to this anonymous SWB Corporation in Boca Raton, Florida but to RMLP in Bethlehem, which is really Ronca. He said he checked again with the Lehigh County Deeds Office and they sent him a document that shows that Ashley Corporation had dealings with Ronca. Ronca bought out 12% of his 25% interest for Martin Towers for \$10. Mr. Antalics later checked with the State Division Corporation of the State of Florida and they pointed him to certain sites that showed ten pages of single space, real estate holdings of the Harrick Company. I was also informed that he attempted to buy the San Diego Chargers, The Pittsburgh Pirates, owns a Roller Blading Championship team, and has an extensive art collection. Can the district afford to approve a TIF for a gentleman who will take money from the taxpayers for 20 years increasing the burden of the district, in terms of the monies received through taxes? Please keep this in mind when you hear TIF come before you again and that you act appropriately. Here in Bethlehem we have found out that the ocean is full of financial sharks. We now have a real estate shark in the same waters and he is looking for a pond of flesh from our taxpayers.

LIBERTY ALTERNATIVE DROP OFF AND VISITOR PARKING

Dr. Lewis stated that the board requested that the district examine an alternative drop off at Liberty High School. Mr. Gilliland and Mr. Hanna are here tonight and they have prepared something for you tonight.

Mr. Gilliland stated that as Dr. Lewis indicated they were asked to look into possible parking arrangements in this area. Mr. Hanna has met with Mr. Barron from the City and discussed this particular proposal. From the city's point of view it is favorable. If you

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take a look at the diagram the entrance right now is two-way. Our plan would still have the inbound traffic on the left hand side and the outgoing traffic would be diverted through this parking area and it would exit further on Elizabeth Avenue. You will also notice that there is a curve where there are some lines drawn. This is where the area is the widest and we feel it would be ideal for a drop off zone for the students. You don't want students getting out of a car directly on the curb because of the elevation. You want them to get out on the level. That is a protected area where they can just walk up the sidewalk. We also have included here thirteen parking spaces under this configuration. There is also a replaced walking area. On the documents that we gave you we also included an alternate and I have to tell you we don't have to do it at this time but the sidewalk in that area is not in the best of shape. We have included that for your thinking and possibly for the replacement of the sidewalk. We have also indicated what we believe is the proper signage and where it needs to be placed.

Mrs. Dexter stated that she enjoyed the idea of the student drop off at Liberty but we do not have money. Couldn't we do this in a less expensive way such as with gravel. I don't know why we couldn't do something less than paving it and doing the sidewalk and making everything perfect. Maybe we could just have a safe place to drop off kids.

Mr. Gilliland replied that he did not know the answer to that entirely. I do know that we were given approval to use that area by the city as part of our construction project. Whether they would approve that on a continuing basis; I am not certain.

Mr. Hanna stated that the parking area was granted on a conditional basis. It was only temporary until the construction completed. You would still need to do the crossover to exit out of there. As far as it remaining a stone parking area, I don't know that they would approve.

Mrs. Dexter stated that she is thinking about a good safe place where kids can get out of their cars and not risk someone rear-ending their car. We had a girl hit by a car somewhere in that area in the last month.

Mr. Fazil stated that you would need that curb cut because there is no way to turn around.

Mrs. Leeson asked if they could look at and perhaps come back to the board with whether we can or cannot do it in a little less expensive way. Perhaps getting a feel from the city as to whether gravel would be approved. With the idea that perhaps when money is available we could complete it in a nicer way.

Mrs. Follweiler asked if Grenadier would have a drop off and an additional sidewalk where it would be safer?

Mr. Gilliland responded that there is currently a section sidewalk at the crossroad of Elizabeth Avenue. The new proposed sidewalk is closer to the building where students would be able to exit their vehicles and walk protected into the building.

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Mrs. Follweiler stated that you would still be working on the same quantum.

Mr. McKeon responded that it is Elizabeth Avenue from Grenadier Blvd to Elizabeth Avenue. Mr. McKeon stated that he was thinking the same as Mrs. Follweiler was.

Mrs. Follweiler commented that she thought alternate would mean that instead of the \$167,000 it would be \$64,000 to put in a sidewalk.

Mr. Hanna responded that we are removing and replacing the sidewalk from Grenadier Blvd.

Mrs. Follweiler asked if this is the area that is fenced off?

Mr. Hanna responded that the rain has delayed the seeding. Once it dries out it is going to be seeded.

Mrs. Leeson asked if this area could be designated as handicapped parking for the stadium? One of our issues has been the handicapped parking for those with limited mobility going to the stadium. This parking would be close enough to the elevator there.

Dr. Lewis replied that we will bring it back and review it.

Mrs. Follweiler asked if this is something we are seriously looking at should we suspend the other activity going on in the same location.

Mr. Hanna responded that it was a question they had. The city really wants to see that put back in place. It was an agreement that they let us use that temporarily. The only thing that can go on there at this point is seed. There is the concern of getting a lawn in there and then taking it out. The sub base that is on there wasn't prepared for use as a driving drop off lane.

Mr. Gilliland commented that we would have to remove that.

Mr. Hanna stated that it would not be the correct sub base for what we want to do with it.

Mrs. Follweiler added that the current drop off is just in any place. There is no designated area.

Mr. Hanna stated that when he met with Mr. Brown he was told that the city would put signs indicating no standing or stopping along Elizabeth Avenue and they will enforce that.

Mrs. Follweiler commented that she imagined it would be inconvenient but is it possible to drive in to the main parking lot, go around to the back and circle back out for drop off?

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Dr. Lewis responded that we already have some van drop offs occurring there early. It would not be able to handle a ninth grade flow of kids that may be chauffeured to school. It's too congested coming out. This would be a simple in and out.

Mrs. Follweiler stated that she'd go back to what she thought they were talking about the alternate earlier, which was to make Grenadier Blvd the drop off.

Mr. McKeon stated that Grenadier Blvd. is already running back into the stadium.

Dr. Lewis commented that there is no area for them to pull in. They would have to drop them in the street because it's all parking.

Mr. Gilliland stated that the other issue to consider here is that when this project was approved there had to be a storm water plan on file. We would have to have the City share what their thoughts are. In my mind that is one of the biggest issues. If we would leave it the way it is, there is a certain amount of debris that does flow into the catch basins.

Mr. Tenaglia asked when Mr. Hanna said that there will be no stopping or standing on Elizabeth Avenue was he just referring to the south side?

Mr. Hanna replied that is correct.

Mrs. Cann stated that if drainage were an issue, would it be possible not to do the parking and we would just do the stone ground?

Mr. Hanna replied that anything is possible. We can ask them.

Dr. Lewis stated that we would need to look at what that storm basin can handle. I don't think a strip of lawn is going to offset it that much.

Mr. McKeon suggested that when Mr. Hanna pleads his case to the City tell them we can use that for the police officers so that they can get out of the stadium earlier on a Friday night.

Mr. Hanna stated that he would look into it and we will try to get back to you in the next two weeks.

Mr. Majewski stated that there was a question that came about earlier on the interest expense on the TRAN from last year. I won't be able to give you all of it right now because it would have to be calculated. As the money is not being used it is invested and generating revenue so what I have is the gross interest expense number but not the net costs to the school district. Taking a look at last year the gross interest expense was \$58,212. The money was fully invested. I would imagine we would have gained close to \$30,000 in interest income. You are looking at a potential net expense to the district of about \$20,000-\$30,000 from last year.

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Mr. McKeon asked do you recall the interest rate that we borrowed at last year.

Mr. Majewski replied that he recalled it was about 2.2% interest rate and that it was fairly similar to this year.

CAPITAL RESERVE UPDATE

Mr. Majewski stated that the unencumbered fund balance we have as of the end of May is \$267,541.79 in the capital reserve account. In the back we added something that was not necessarily part of the capital reserve but we thought it would be helpful for you. It would be the 2007A bond fund as of the end of May at \$5,683,243.26 as well as with the 2009B funds, which would be also through the end of May at \$10,822,339.94. Later in the agenda we will show you how that is invested.

FISCAL YEAR UPDATE

Mr. Majewski reported it appears that some of the new especially on the revenue side as well as on the debt service side was a little more positive that it has been. When we take a look at what we were expecting or anticipating to be as a deficit as of the end of the June. Now we are looking at close to \$7.2 million from what was near \$8 million. Some of the information we were getting especially when we were looking at mercantile tax and some of those receipts. The current real estate was up a bit and the current income tax seemed to remain strong. Those were items that were very pleasant surprises and helped out revenue numbers maintain stronger levels. Even though current real estate was stronger than it was earlier in the year; it is still a far cry from were we are expected to be. We will continue to monitor that carefully. On the expenditure side with some of the restructuring that was done recently with our debt as well as the performance of the swaps, you are looking at the Wachovia bank loan coming in at a net interest cost to the district of less than two percent. We were paying four percent on that before. It is half of what it used to be. That is now costing about \$60,000 a month as opposed to the \$120,000 a month. The swaps are now cash positive. I do my own analysis and then I confirm this with Mr. Shearer. We are generating based on my records about \$20,000 a month from the swaps. The market has improved significantly from where it was several months ago. I will continue to monitor the situation. This close to the end of the year, I am not expecting that there will be much of a change between anything we are projecting now until the actual audit results come through.

Mrs. Leeson stated the projected fund balance is a negative \$7.183 million. She asked if that included \$3.17 million from last year?

Mr. Majewski responded that it does include the amount from last year.

Mr. Tenaglia stated that at the end of April you had a budget for student activities of about \$244,000 and expected expenditures were about \$275,000. I see we went from \$275,000 to \$390,000. Do you know what caused this?

Mr. Majewski replied that there were two salaries that were not charged to that cabinet code at the beginning of the year. They were charged elsewhere. They are now being

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charged there. That would be the office of Dr. Donaher and his secretary. They were charged to the Curriculum and Instruction area before. The budgeted funds were there where he was originally budgeted to have been charged.

Mr. Tenaglia asked Mr. Majewski if he had done a budgetary transfer?

Mr. Majewski replied yes. The funds were there at the beginning of the year.

Mrs. Dexter asked why was the building staff at \$150,000?

Mr. Majewski replied that when he does these projections he takes a look at bi-weeklies and I'll extrapolate out where it is going to be at the end of the year. I would have to take a look at the type of detail that went inside of that. We did not add anybody in those areas. Salaries could have been under projected or maybe there were salary increases that were under projected. I would have to take a look at it. My focus is primarily on the projected expenditures and based on the current bi-weeklies as they have been that's where I expect the area of expenditures to be. I'm sorry I do not have that specific detail but I am confident that the projected number should be accurate.

Mrs. Dexter questioned the student activities account.

Mr. Majewski explained that it was due to having two salaries moved into that area. They were budgeted elsewhere and moved into that category.

Mrs. Dexter asked what about intersystem payments?

Mr. Majewski replied that this is an area that has been typically in the past somewhat of a problem area for us because those have been special education students. Taking a look at the activity as it stands right now we are tracking very well compared to where we budgeted Intermediate Unit students more than anybody else. In addition that has been assisted by monies that were anticipated coming back from the Bethlehem Area Vocational Technical School because of their reduced operating expenses from revenue that was generated. That is probably one of the closest we have come to hitting that budget, at least I am projecting that we are. We haven't hit that in some time. We budgeted accordingly for at risk students and I believe we finally have a formula that is working based upon the actual expenditures.

Dr. Lewis asked if there was a moving target on the Charter Schools?

Mr. Majewski replied that there is a moving target with the Charter Schools we've had a problem in the past number of years with the addition of classrooms. They continue to add classrooms. Some of the communication is more reliable and accurate so we are better able to budget those figures. What happens throughout they year is that they cannot tell us the children who are regular education students become identified as special education student. The difference is between an \$8,000 tuition to a \$15,500 tuition. That can add up very quickly if you have 10 or 20 students who now are getting identified in

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another way. I've seen it happen both ways. I've seen more regular education students identified as special education students but I've also seen when they continue there evaluation and they do terminate their Individualized Education Program and put them back in regular education. It's not all going in one way.

Mrs. Dexter stated that she had two other inquiries with Technical Services and Data Processing. She also asked Mr. Majewski if he could tell her what the two lines provide to our district.

Mr. Majewski replied in general terms Technical Services is made up of some of our technical folks who do the maintenance work; although that has not been the issue on that account. The issue in that account that has caused it to exceed the budget has been the anticipate budget based upon e-rate coming in for our telephone service as well as our internet service. We have not seen those checks nor have we had an offset on that account. We are extending the gross upon the actual expenditures. That has created quite an issue on that account. The culprit there is the lack of e-rate offset on our telephone as well as the broadband. Data Processing are those individuals who work with financial systems, run the checks, work with student information systems and maintain those applications. Data Processing is extended at the level that it is because of the new applications coming on. There is some overlap with software expense and meeting expense that was not budgeted into that account or anticipated, but became necessary as we were going through the process of implementation.

Dr. Lewis commented that we have slowed down the implementation of IFAS, which is our financial system and our human resources system and we have had to maintain our old systems during implementation.

Mrs. Dexter asked why is it slow?

Dr. Lewis replied because of training cycles and not being able to get everyone trained. I agreed with Stanley Majewski, Tom Washington and Marie Bachman that we not rush into that. There were some redundancy costs. We had to maintain two systems.

Mr. Majewski stated that we need to take a look at to an extent is that if there are changes, updates, or maintenance to it we need to contract with Pentamation in order to make those changes. Those orders are charged to Data Processing.

Dr. Lewis stated that IEP Plus under Rick Agretto also had state mandated new changes to its system that we had to have programmed that were unfunded.

Mrs. Dexter stated that we are running two systems because we have not had training on the newer one. What's the goal to have the training completed?

Mr. Majewski replied that it is not just training. As you have a system you are maintaining it. What I would like to be able do is put together specific numbers with your agreement so that you can see exactly where those accounts are in detail. I know when

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you take a look at Technical Services it will work out to be the telephone and internet lines. I would feel more comfortable providing you with that detail by the end of the week.

Mrs. Dexter stated that between the costs of those two departments there is almost \$400,000.

Mr. Majewski replied yes. With our telephone service we have never had a problem like that because we have had e-rate offset. I don't know why we have had that issue that is why I am asking to allow me to put together more detailed reports so that I can answer those questions.

Mr. McKeon stated that in some companies he has worked for when you implement new systems in general you run them parallel to make sure the information is consistent on both sides.

Mr. Majewski commented that they have had some issues with getting up and running and running effectively. To take the Data Processing staff we have right now and divert them from trying to deal with those issues for the financial systems would have meant that both systems would have received inadequate attention. There was an agreement to delay the financials, which in the end was very useful because it's going to generate a different account structure. The accounting system we have we had to bridge over and be able to put in the system. We have also put together a different type of training module within the school district that brings all the staff into a room rather than take them out of the building. I need to thank Frank Arbushites and Marie Bachman for putting this together. We have web casting for the in-service so we did not have to pull them away from their buildings, which would have taken more time away. We had an in-service application that fit very well with a web cast type of opportunity. We did that with our cabinet, with the administrators and it was a marvelous step. I think that we won't be shy about using that again. There have been a lot of things as a result of the implementation that caused it to be delayed but also at the latest result of that it appears more likely a positive implementation and a more successful implementation. Payroll has been pushed off to January 1, 2010 because we are trying to keep the calendar year and make sure that we have adequate time to verify those systems are running and running well.

Mr. Tenaglia asked is it that the district has not received the e-rate checks or is it that you do not anticipate receiving the full amount of the e-rate reimbursement.

Mr. Majewski responded that he was notified of the approval but at this time we have not received the check.

Mr. Tenaglia asked you are fully anticipating receiving what you budgeted? The discussion I recall was the application process. This is not an issue?

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Mr. Majewski stated that this is not an issue with the application process. The application process has gone very well this year. It's a matter of processing the approval and the receipt of the check.

Mrs. Follweiler stated that many of the items that went over are areas that we cut and now we are over in this budget so I am very concerned that we continue to look at that as we go forward. I know we cut quite a bit out of those programs and now we have gone over by 26%. I am concerned where we are going to find the money.

Mr. Majewski responded that with Alternative Education there is one individual that was not anticipated to be charged to this account but has been for this year. We had some minor cleaning expenses from one of the rentals we had. It was about \$6,000 of cleaning expenses we had subbed out because they were looking to use the building and we were still trying to move into our existing building here. They hired somebody with our blessing to do so because by agreement we needed to. For the most you are looking at personnel related debt. We anticipated them not to be charged.

Mrs. Follweiler stated that just like Dr. Donaher's department there should be another category somewhere that should be on the upside to equate.

Mr. Majewski explained that Dr. Donaher's situation were the money was budgeted and it is in a different area. When you take a look at this and you are anticipating that you are going to have five teachers charged to alternative education and you need to charge six there then there is no offset.

Mr. McKeon stated that he would like to commend every department who contributed to a positive budget savings. I do have a concern with Maintenance and Custodial area on the back page. There is a \$1,600,000 savings on there.

Mr. Majewski stated that the vast majority of that had to do with energy purchasing at a reduced cost.

Mr. McKeon asked if Mr. Majewski could break down the category of Career Academy, RASA, and Alternative Education so that the board could see what is causing the overage. I know these are not large student populations and it's costly.

OFFICIAL STATEMENTS

Mr. Tenaglia stated that he sent a number of questions to the board and spoke to the administration and we had a conversation earlier today. One dealing with the Capital Reserve Technology Fund on page 90 of the official statement of the 2009 bond issue, which I believe is duplicated in the Auditor's Report. We show a \$100,000 balance at the beginning of the last fiscal year and no activity. I questioned the administration as to whether or not we could possibly use this fund even though it is a capital reserve fund and use it for some technological related offset and again the response was affirmative.

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Dr. Lewis commented yes, with the exemption of about \$25,000 that are teacher loans from the computer loans fund that we still have on the books. Mr. Majewski and myself both concur that Mr. Tenaglia's suggestion regarding the balance that is there you could redirect within the confines of the loan.

Mr. Majewski stated that it's currently in the budget that we are going to be eliminating the computer loan program, which means we will stop processing loans now and we are just collecting the money on it. However since it was set up by board resolution if it continues to stay on the budget in July you can anticipate that I will need a resolution to terminate this account so I can keep the records accurate.

Mr. Tenaglia stated that if anyone questioned the appropriateness of having that fund available for the acquisition of computers by staff; I think it's just a natural fall and we're following up on his recommendations. Also on page 96 the self-insurance fund where it shows an amount in excess of \$21 million is going to the account through the course of the year. We showed no earnings but Mr. Majewski assured me that the earnings on those accounts were accredited elsewhere and just not fully cost accounted back. On page 97 we had a \$1.459 million deficit and you transferred from the general fund \$41,000 less than that. I'm wondering why you didn't fully transfer that amount.

Mr. Majewski replied that we had a small fund balance in this account. We try to keep it as close to zero as possible so that they are not generating excess fund balance in the athletic fund. We factored in how much we needed in order to get it down to as close to zero.

Mr. Tenaglia stated that we had discussed the concession fund in which you were going to do more of an analysis on this fund. On page 98 we do not show the booster club transfers, which were a big part of the discussion.

INVESTMENT OF BONDS PROCEEDS

Mr. Majewski stated that we are looking at investing the funds earlier with the presentation by Mr. Shearer. We are looking at rates of .7 or a little higher. We are fortunate enough as you can see here to get some rates that were significantly higher than what you were hearing earlier with no additional fees. We priced around all the organizations that we work with and these were the best rates we were able to get. We opened up a separate account just for these funds and we have them generating income for our projects.

Mr. McKeon asked if creating a separate account was required.

Mr. Majewski replied that these are construction funds and bond related funds. I cannot co-mingle them with the other accounts.

LETTER OF CREDIT PROCESS

Mr. Majewski reported that very infrequently do we need a letter of credit however, the most common item when you do construction work, that would be when we have the City

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of Bethlehem who would require a letter of credit through the developer's agreements. Typically when we have a new construction project and we know the size of the letter of agreement, we would call either Wachovia or Bank of America and ask them for the cost of their letters of credit and see what appears to be the least costly direction. We would then go with that bank. If the letter of credit had extended beyond one year obviously the second year we would just renew.

ACT 32 TAX COLLECTION COMMITTEE (TCC)

Mr. Majewski reminded the board that you need to be thinking about an appointment to the Tax Collection Committee. I checked with most of the other districts and they have their appointees and their alternates already in place. It's not something that needs to be done by the end of this month. The school district municipalities are starting to talk prior to the Tax Collection Committee meetings that are to be held. If we have a designated individual then they can participate in some of these meetings. What they are looking to do is talk with municipalities and try to work together. There appears to be a lot of concern about the school district municipalities working together on the Tax Collection Committee. If you are interested in doing so in June we will need to put together a resolution that will identify the individual and the alternate. I just need to know who you will be identifying and I'll make sure that the name gets presented.

Mrs. Leeson asked if we were limited on who we could appoint for the Tax Collection Committee.

Mr. Majewski replied that we are not limited. You should be picking some one who has some knowledge of earned income tax and earned income tax collection processes. In other school districts it's been a combination of their business administrator and board members. It's one person and one vote however; DCED right now is working on coming up with a weighting system. With Bethlehem Area School District is much larger than any of the other municipalities; your one vote will be weighted.

Mr. McKeon stated that we could have numerous alternates.

Mrs. Leeson asked if this was a position voted on by the board or is this an appointed position from the president.

Mr. Majewski responded that it is a position voted on by the board. There will be a resolution that has been structured that we will need to fill in the names.

Mrs. Leeson asked could I make a recommendation with any board members that may be interested in this position?

Mr. McKeon stated that he would be interested in the position. It does not make any difference whether it is as a representative or as an alternate.

Mrs. Leeson asked if anyone else was interested.

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Mr. McKeon asked when would that committee needs the representative?

Mr. Majewski responded that he would have to check but he believed it would be sometime before September 13, 2009.

Mrs. Leeson recommended that the item be put on the Human Resources agenda for next week so that we may have a resolution for June 22, 2009.

PRIVATE TRANSPORTATION CONTRACT

Mr. Majewski reported that we have circulated the RFP and we have received two responses. Based upon our review that the school district operated compared it to the proposal by First Student and the proposal submitted by Student Transportation of America. We initially went through and identified the buses that could not be older than a certain age. It is very difficult to get a true comparison between what the district does and what the contractor does. We asked them to revise their submissions so that we would have identical school bus replacements schedules. To factor the cost to the school district as well as have both of the contractor on the same page. The last three lines we are looking at is the net cost for those three years. To go with either contractor is approximately \$2 million to \$2.2 million less expensive than it would be to maintain a school district operated fleet. Translated another way about \$400,000 to \$440,000 a year more expensive. As it stand right now it would be clear that going contracted would be the least expensive alternative. Between the two, First Student and STA, the slight edge goes to STA over the five-year period.

Mr. McKeon stated that the replacement costs on page five are obscene. Not the replacement costs itself. It's the fact that this district has not taken it upon themselves to replace this equipment in a timely manner. If I understand this correctly, this is the potential replacement cost of the vehicles that we have on the fleet.

Mr. Majewski stated that we have fallen behind by so much. If you take a look at a normal replacement cycle it is about \$600,000 to \$700,000 a year. We are roughly at \$1.1 million behind schedule.

Dr. Lewis stated that we couldn't afford to buy new buses.

Mr. Majewski stated that in the past we may have used some of the bond funds that were left over from some of the other projects or we had actually obtained more bond funds that we needed for capital project purposes. Those were all exhausted.

Mrs. Koch asked if this amount was approximately what we were spending for computers?

Mr. Majewski replied that if she was referring to the laptop leases. The laptop lease was approximately \$950,000.

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Mrs. Koch stated that if we had not purchased the laptops you would have been able to purchase new buses?

Dr. Lewis responded that we could argue that we could replace buses with other monies. Yes, we could do that.

Mrs. Koch stated that every year we purchase buses. That was part of our budget. All of a sudden we are purchasing laptops and stopped purchasing buses.

Dr. Lewis stated that he did not think that was the conscious decision. We chose not to recommend purchasing new buses.

Mrs. Koch stated that this was not the way it was explained to her. Mrs. Koch said she would ask where are the buses.

Dr. Lewis responded that the buses are not in the general budget. The buses were in bond purchases.

Mr. Majewski commented that we have not had bond funds available for replacing buses in at least three or four years.

Mrs. Koch stated that it's been even longer than that since we have purchased new buses.

Mr. Majewski stated that he could take a look back but he remembered about seven or eight buses that we bought a couple of years ago. I'll research exactly when that was. I know that it would not go further than that because we were on an annual cycle of replacing buses.

Mrs. Koch stated that this was a result of a study that was done and it concluded that we needed to purchase a certain number of buses every year. We stopped doing that. That's why we are in the position we are in now.

Mrs. Cann asked on the two contractors there is not a price for them keeping up a fleet replacement periodically.

Mr. Majewski stated that there is. It is built into their base price. That was part of the requirement that they had to build in the same replacement cycle that the district is going to have in their proposal.

Some discussion followed

Mrs. Follweiler stated that we had talked several times that there would be a one time potential infusion of cash if we sold the fleet but that is not factored in here at all.

Mr. Majewski replied that it is not.

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Mrs. Follweiler stated that on page five you show \$400,000 over these five years. Moving forward a bit what is the average projection past the five years? What would be the average bus replacement rate?

Mr. Majewski responded that it is difficult to know where that would be. Part of what is occurring and I don't know how quickly it may be in place is the requirements and specifications of buses and the use of clean diesel and some of the other requirements on buses could change significantly over the next couple of years. I'm not comfortable giving you a projection on that only because the cost of a bus can go from \$80,000 to \$100,000 in that period of time. There are too many variables in this changing economy for me to know what will happen in six years.

Mrs. Follweiler asked would there be a yearly savings on buses in addition to the one-time shop.

Mr. Majewski replied yes.

Mrs. Follweiler asked if the red numbers on page three were those numbers hard fast. Those are actuals that we would no longer be paying?

Dr. Lewis stated except for the subsidy differential, which is actually an in-flow of additional funds. It has a net effect.

Mrs. Follweiler asked that under the bus depot lease line, would that be if we would lease our depot?

Mr. Majewski stated yes, that is correct.

Mrs. Cann asked why are we not maintaining our insurance?

Mr. Majewski stated that if we are no longer are maintaining the fleet we can take it off of our insurance.

DEBT REFINANCING UPDATE

Mr. Shearer explained that in your packets you have a one page memo with some attachments regarding where we've been so far and where we may be going in the near future with the overall debt portfolio and risk management. The memo itself is self-explanatory by refinancing the Wells Cornwall transaction and eliminating \$75,000,000 roughly of verbal rate risk as well as the swap risk associated with that. We were able to accomplish that and lock in a fixed rate of 4.25%. The Shippensburg Borough Authority was completed back on May 1, 2009. That transaction settled and we have now refunded the 2007 debt. The Shippensburg Borough Authority Bonds and in place of that add the Wachovia two year bank loan. We did not eliminate on that one but we transferred the swaps over to the new arrangement but what we did eliminate was the variable rate risk associated with Dexia as the liquidity facility and FSA as the bond insurer on that transaction. If you remember that one had the clause of the accelerated payment

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provisions and interest dated bank bonds for basically more than six months, which we were extremely close on doing. We made it by a couple of days. Instead of paying \$41 million back through a twenty-year period you would have had to pay that back through a five-year period. That is what we did in the past. To look forward now the district still has two variable rate bond issues outstanding. The series of 2005 variable rate bonds in the amount of \$55 million and another series of 2007 bonds at roughly \$55 million. Both of those have a fixed payor swap. Both of those also have a constant maturity swap on top of those as well. Go to attachment B it shows the series of 2005 bonds with the associated swaps. It's a little under \$55 million outstanding. When you look at the combined package of the variable rate bonds, the fixed payor swaps and the constant maturity swaps; what's their overall cost of funds. Let's go January of 2009 and work our way down. You can see in January the overall cost of funds was in the high six percent and it went down to 5.6 percent and it has been continuing to go down. When you look at the average so far for this fiscal year the overall costs of funds are roughly 5.52. Definitely over where we budgeted but definitely better than where it was last September, October, and November time frame. What's really helping this transaction at the moment are the cash flows related to the constant maturity swaps. If you look at column seven basically for the first half of this current fiscal year it's providing about .49 basis points of relief. You can start to see the yield curve steeping out and then it pays up to 2.17 percent. The big story is your variable rate bonds are still not performing where they should be they are 2.25 percent right now. If they were working perfectly they would probably be somewhere right now at 30 basis points or 40 basis points. There is still a lot of room for improvement. We are not seeing nationwide any other variable rate bonds with this package; meaning RBC, Dexia, and FSA trading much better than this at all. Your 2005 bonds is the one that we really have our eyes on closely because the liquidity facility expires in January of 2010. A few months ago we got a letter of non-renewal from Dexia saying they were not renewing. We are going to have the same options we had for West Cornwall with a few slight variations. One of them, which I did not address too much in the memo, has to do with two-year fixed rate bonds and terminate the transaction. At that point we could terminate just the fixed payor component or both the fixed payor and the constant maturity swaps. That's a decision we are going to want to have discussion with between now and when we pull the trigger. We may or may not want to terminate the constant maturity swaps at that time. Cash flow wise you're doing very well. You may just want to terminate the fixed payor swap obviously the value is changing on a daily basis. Your whole swap portfolio valuation has come down substantially in the past several weeks. The other option is Wachovia. We are in the process of a letter of credit from Wachovia. I don't necessarily like the letter of credit fees that we are seeing right now, they are a little on the high side. It is not Bethlehem specific; it's the overall market. One thing you may want to do is refund half of the 2005 bonds with a fixed rate bond issue and terminate half of the fixed payor swap and refund the other half with some kind of variable rate issue. That way we do not have to terminate the swap. We just transfer it over and continue to monitor. The point for tonight is to start the dialogue now. We don't have to do anything until January but we can't wait until the last minute. Let's start the communication and looking at all the alternatives and perhaps next month come back with a solid plan. The reason why the swaps are getting much better or a lot less negative is because taxable rates are going up

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pretty quickly. Right now we are in a good position. Currently there are quite a few entities out there statewide that I am working with that are now seriously looking at terminating the related swap and issuing fixed rate bonds because the economics are working. What I recommend today may not be the case a week from now. This market is changing extremely quickly. The message for this evening is that although we don't have to do anything until January we need to start going over all the options now. If we see things look pretty good right now then we can start doing something earlier than the scheduled January date.

Mrs. Cann stated that one of the options was to terminate the fixed payor swap but keep the CMS. If we have a fixed rate loan does the CMS have a function?

Mr. Shearer responded that you couldn't have a fixed payor on top of fixed rate bonds. The state frowns on it and mathematically it just doesn't work. A constant maturity swap that is intended to reduce or manage the interest rate cost on either variable rate or fixed rate bonds. There are quite a few across the state and across the nation that have constant maturity swaps on top of fixed rate bonds. That's not unusual at all.

Mr. McKeon asked if I understood you correctly CMS is like subsidizing the fixed payor interest rate, if it goes in the right direction? If not, it supplements it.

Mrs. Leeson stated that she has heard that there is now a vehicle where you can do internet auctions of your bonds. Some municipalities are beginning to do that. Would that be to our benefit? I'm hearing that it can be beneficial.

Mr. Shearer stated that they have been doing that for many of their clients for years. Given the size of your transactions, given the market that we are in, given the credit concerns out there, we are not seeing a lot of competitive bond auctions similar to your transaction. In the good days prior to the market meltdown we were getting excellent results on the competitive sales. When there is competitive bidding; you get competitive rates. You get very low rates and you get very low bond underwrite up commissions. That was pre-market meltdown last Labor Day. Right now with the shape of a lot of the investment banks not being well. They don't want to take on a lot of risk either. What we are seeing are some clients who still want to go full speed ahead with competitive sales. When you do a negotiated transaction with a good underwriter there are a couple days of pre-marketing and a couple of days of actually in the market pricing the bonds. At the end of the day the underwriter had very little exposure with having to underwrite any of the bonds. They had them basically all sold. Anytime my client has a bond sale we have to have the discussion of what makes more sense. It really depends on your credit, the market and some other factors out there. It's something to consider when we go to do the next transaction. I think that's more of a game time decision. In my eyes you have the best of both worlds for the West Cornwall transaction refunding because we did the RP process, a mini competitive format. You got a very low bond discount which if we went out to bid that it probably would have been much higher. You are not \$10 million but you are not \$100 million. You are in a tough size right now in this market where you are not attracting the huge players out there nationwide and the small players can't really sell

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these bonds right now so they will have to put more risk cushion in. It's an option a lot of entities do the competitive auction in this area. In my eyes, and I make it clear with my clients; we have no vested interest in competitive or negotiated. When we get to that point and time we can either do the full blown competitive sale, we could do like we did this last transaction where we did an older fashion scaled down version of a competitive sale where we get their commission hold their feet to the fire and still make sure the rates are in line. It's something we will want to discuss when we get to that point.

Mr. Tenaglia asked if we could touch briefly on the 2007 issue. I know we have a longer commitment with Dexia. We are looking 2012 before the liquidity provider commitment expires but is there any advantage when you are looking 2005 to also look at 2007?

Mr. Shearer responded that we are looking at them. What we did with the West Cornwall was that we hit the sweet spot right away. That was a pretty short structure and that was when the market was hot. Your other transactions are all pretty long. They are weighted towards the tail end. We are dealing with 15-20 years of waited average life transactions. We are obviously watching those as well as the 2005 and the 2007 deal we just refinanced to see if we could do something earlier than the two years. My only concern to proceed with caution and due diligence is that the market is changing and we are seeing taxable rates shoot up which means your termination values are getting much better. We don't want to put all of your eggs in one basket again and terminate everything at one point and time. We are looking at it and evaluating it. If we see something that looks like it's the right timing and it's a cost effective transaction to do that one we'll bring it to you. Maybe by the time we do the 2005 two months from now we might want to do the 2007 at the same time because things may have realigned themselves that it makes a lot of sense to do it at that point and time. My strategy is that treasury rates are going to keep this momentum that they have. It's good to keep the discussion going on.

Mr. Tenaglia asked if there was any significant change in the credit quality of Dexia?

Mr. Shearer responded that there was no change.

Mr. Tenaglia asked what is the worst-case scenario if for any reason Dexia would not survive? What happens to the liquidity provider?

Mr. Shearer replied that it will become null and void and we would have to go find another provider. We have had good discussion with Wachovia with their desire to lend a hand and provide some amount of a letter of credit. Do we want to use that letter of credit capacity that they have for the 2005 deal when perhaps another option maybe better for the school district or do we want to keep that in our back pocket. We don't want to use all of our ammunition. We need to look at the current decision but also think five steps ahead to make sure we are not shooting ourselves in the foot. I would suggest that we try to keep a meeting rhythm going here for next month.

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Mrs. Leeson stated that we have a regular board meeting coming up on the 22nd of June. Would you be interested in coming back to us at that time or wait until the finance meeting in July?

Mr. Shearer responded that he would be back on June 22, 2009 and on July 13, 2009

Agenda Items for June 22, 2009, Regular Board Meeting

A. Appointment of Tax Collectors

Mr. Majewski stated that the point of tax collectors is to correct the typographical errors on real estate taxes. It is the same schedule we had last year.

B. Bethlehem Area Vocational-Technical School Payment schedule

Mr. Majewski stated that this is an annual item that provides them with cash flow. You approve it and we will routinely cut a check for them on those days.

C. Northampton Community College Payment Schedule

Mr. Majewski stated that Northampton Community College provides us with the ability to be able to make payments throughout the year instead of a lump sum payment. We are looking to identify that payment schedule once again and have you approve it so that we can submit our payments when they are due.

D. Designation of Depositories

Mr. Majewski stated that this is an annual authorization. It's a list of banks where we have the ability to deposit funds. We cannot deposit money in any type of bank that you do not authorize us to send money to.

E. Renewal of Property/Liability and Vehicle Insurance

Mr. Majewski stated that there are two surprises here. With reference to the property and casualty insurance, we usually have some competition between some firms. Myers Benner who has had the account has provided an extraordinary competitive quote with The Peerless Insurance Company, a company that we have had success with this year. The \$5,000 deductible would remain the same. The \$500 comprehensive and the \$1000 collision deductible remain the same as well. Despite of the value of our plant going up, they were able to find a way to keep the cost of insurance slightly down. School board legal, \$51,000 is slightly higher than what we paid for this year. It is a very solid and competitive quote. The one thing I have not received anything on is umbrella insurance, the excess liability. That would be on top of your package insurance, which has its limits you generally have to increase your limit and we get a \$15 million umbrella. If there's any type of catastrophic suit, it provides coverage over all the different insurances. I anticipate I will have one quote from PSBA because they are the most competitive but it is not listed here. Currently we have PMA providing our worker's compensation insurance. They have only provided us with retro policies. What that means is you pay a certain premium, depending on your type of losses and the following year you can get money back. Looking at our experience although we only had one spike year they might front us and say we'll have a 75 percent cash flow for your payment. What you are

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seeing here with the \$572,000 is assuming a 75% cash payment on the calculated premium. When I take a look at the premium submitted by Myers Benner for worker's comp it is almost \$604,000. That is not a retro policy. You don't have the ability to reap any benefits for a good year and you don't have the exposure during a bad year. Typically our losses have been coming down and are fairly stable. However, about two years ago we had a spike we had one very bad case. The person had a heart attack on the job. The reserve alone was a million dollars. That would just eliminate any type of retro. Normally the retro would work well but it would leave us open to spikes of a bad claim. The difference between them is the savings on a retro and the cost of the policy without the retro type. I have no preference going one way or the other. Pennsylvania is a fairly lenient state when it comes to Worker's Compensation claims. If you ask yourself what is the likelihood that we will have those spike claims or that we could have a bad claim year? It should be a real concern.

Mrs. Leeson asked where exactly are you leading us? You think we would be better going with the \$604,000.

Mr. Majewski stated that there is not much of a price differential there for me to accept the additional risk.

Mr. McKeon asked which firm are you recommending for the worker's compensation.

Mr. Majewski responded that he is recommending the non-retro quote.

F. School Related Organizations

Mr. Majewski stated that we do this annually because our insurance carriers have agreed to put them as additionally insured at no additional cost to us but we have to identify the school related organizations. If it weren't for the insurance coverage I would not bother doing this. By approving this list they get covered under the liability insurance.

Mr. McKeon stated that he sees the Freedom PTO Liberty is PAC and not PTO. Do you have any idea why? My other question is how come the Liberty Swimming and Diving Association is listed and not Freedom's?

Mr. Majewski responded that we get this information from the schools. I am not certain that Freedom has a Swimming and Diving Association. I'll check with them.

Mrs. Leeson asked that was my question also. Why is Liberty's swimming and Diving Association listed? They were the only ones who asked for the coverage under insurance.

Mrs. Follweiler asked what constitutes an organization? Is it anything the school says?

Mr. Majewski replied yes, but you are looking at Parent Organizations or PTO's for the most part.

Mrs. Follweiler asked so the boosters have not opted to be covered?

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Mr. Majewski replied that if the boosters are 501(C)3's they couldn't be covered under our plan. If they are a separate entity then they cannot be covered.

G. 2009 Homestead and Farmstead Exclusion Resolution

Mr. Majewski stated that the Homestead and Farmstead exclusion, it's an annually thing. Typically I think we talked about this. If you were not going to accept the money and reduce property taxes, the action would have had to be taken. We will take the formal action to show the dollar amount, how much it is going to reduce taxes; the language that has been created is something that was in place last year. We would need to update it for this year.

Mr. McKeon asked what is the number of Homestead and Farmstead participation last year verses this year?

Mr. Majewski replied that Homestead is up and Farmstead is down by one.

Mrs. Koch asked if residents have to re-register for this each year?

Mr. Majewski replied that it is neither. Every three years we will go out and have them re-apply. The use of their property may have changed. Right now it is good for three years. What you saw in the property tax reduction is down slightly and the number of homesteads went up. That is what we talked about the \$181 verses the \$177.

H. Apple Lease Restructuring

Dr. Lewis stated that we gave option 1 then option 2. Mr. Tenaglia made the suggestion of taking the computer loan funds as a reduction against the aluminum macbooks for year one.

Mrs. Leeson stated that she understood that as of today the aluminum came down to \$1,190.00 and that they were getting rid of the plastic.

Dr. Lewis stated that they are having some issues with the shell on the plastic ones. There is a release on that. We will have a new number for you.

Mrs. Leeson stated that she also understands that the battery life on the new one is three times as long as the previous. There is also an additional cost savings with batteries as well. If they discontinue the plastic and what we purchased was the plastic, will we have some issues with that down the road?

Dr. Lewis stated that they are not discontinuing the plastic. They are changing the polymer where the risk hits.

Mrs. Leeson stated that part of the issue we've had with constantly having to refresh our computers is that we can no longer get parts. We can no longer fix the machines. If the

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exterior case is no longer available then we are going to have to get rid of these perhaps when we are still finding usage life.

Dr. Lewis stated that what he read was that the new polymer case is the same size and specification. You're correct in the sense that the original one will not be the one you are sent. You will be sent the new polymer one. We will not be giving them back before the useful life. Is the preference to go with the more durable unit?

Mrs. Leeson stated that she would like to see the numbers.

Dr. Lewis stated that he will have both listed and then you can pick A or B.

Mrs. Dexter asked if we could reduce the number of computers downward so that we can buy aluminum cases.

Dr. Lewis asked Mr. Frank Arbushites if that would allow us to cover our staff.

Mr. Arbushites responded that it depends how far down she wants it reduced. The number we put in which was 1,250 was meant to cover for all teachers. We have more PowerBooks out in circulation now.

Dr. Lewis stated that everybody should be upgraded to the faster processor. Let's take a look maybe the new pricing structure gets it down.

Mrs. Leeson stated that the new pricing structure is significantly lower. And if I am correct it was about \$1,190.

Dr. Lewis responded that there are some other features that are not captured in that price. You are looking at a base price.

Mr. Arbushites stated that the price that was announced today was lowered about \$100. That is the out of the store price. We got a special financing price when we negotiated this lease proposal.

COURTESY OF THE FLOOR

None

OPEN FORUM

The meeting adjourned at 11:27 p.m.

Minutes prepared by:

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